IPART Independent Pricing and Regulatory Tribunal | NSW

Hunter Water prices 2025-2030

Final Report

June 2025

Water »

Acknowledgment of Country

IPART acknowledges the Traditional Owners of the lands where we live and work. Our office is located on Gadigal land and our work touches on Aboriginal lands and waterways across NSW.

We pay respect to their Elders both past and present, and recognise Aboriginal people's unique and continuing cultural connections, rights and relationships to land, water and Country.

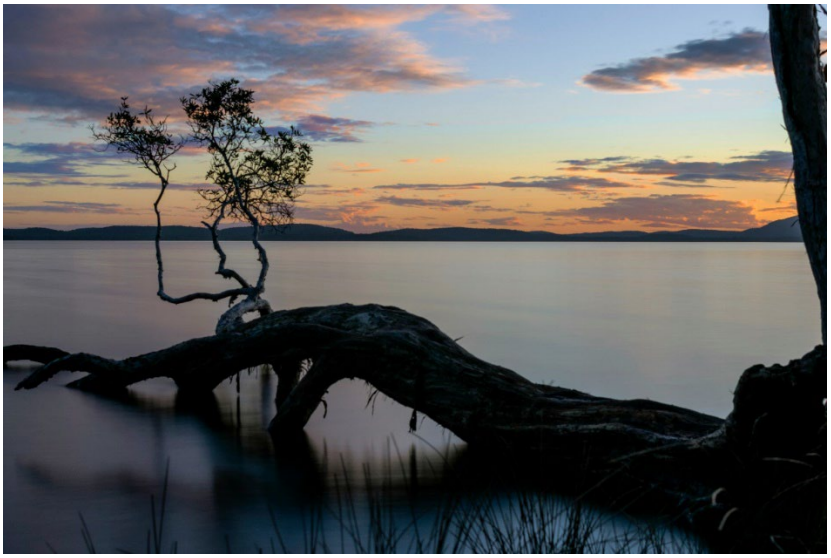

Image taken on Worimi Country (Myall Lakes)

The Independent Pricing and Regulatory Tribunal

IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from IPART's website.

Tribunal Members

The Tribunal members for this review are:

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Dr Darryl Biggar
Jonathan Coppel
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Chapter 1

Report Summary

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1.1 IPART has set Hunter Water's prices for the next 5 years

We have reviewed Hunter Water's prices and have made decisions on the maximum prices it can charge for the 5 years from 1 July 2025 to 30 June 2030. This report outlines these decisions and explains how and why we reached them.

Reliable, secure and affordable water services are needed to support the growing Lower Hunter region. Hunter Water owns and operates the water, wastewater and stormwater infrastructure and systems which serve more than 250,000 households and businesses in the region.[1]

Water and wastewater services are essential, and it is vital that the services deliver value to customers and are affordable. It is also important that Hunter Water has the capability to maintain and replace its assets, deliver necessary infrastructure to meet the increasing demands of population growth, and can plan and prepare for the challenges of climate change.

IPART's role is to set the maximum prices Hunter Water can charge for these services. In doing so, we set maximum prices that mean customers only pay for expenditure that is efficient. Hunter Water may set prices below the maximum with the approval of the Treasurer, and it also provides a range of hardship assistance for customers struggling to pay their bills.

Hunter Water is, like most other water utilities in the world, a monopoly. This means customers cannot shop around for a provider which offers them better value, lower charges or better services. It also means Hunter Water is not, in the main, competing with any other businesses to attract and keep customers. In a competitive market, businesses are compelled to adapt, innovate and keep prices competitive. If they don't, they won't survive.

IPART seeks to set efficient prices which reflect the maximum that Hunter Water would need to charge to survive in a competitive environment. This means customers don't necessarily pay for what Hunter Water does spend, but what it should spend. It also means that Hunter Water generates the revenue it needs to plan, construct and maintain infrastructure as well as funding its day-to-day operations.

Our decisions, and the maximum prices, would result in customers only paying what Hunter Water requires to efficiently deliver quality water services.

In addition to our legislative responsibilities and our framework for regulating water businesses, we have also considered the following factors when setting maximum prices as required by the NSW Government:

- the cost-of-living impacts of Hunter Water's prices
- the effectiveness of existing rebates to manage the social impacts of Hunter Water prices
- opportunities to adjust project timelines to minimise price impacts and, if necessary, to reduce the proposed capital programs in line with least cost planning principles
- deliverability of the proposed capital plans based on capability and market conditions.

1.2 Typical bills will increase by 6.9% from 1 July 2025, then by an average of 3.8% a year plus inflation

Typical yearly water and wastewater bills increase by $86 from 1 July 2025

In discussing typical residential bills, we refer to the combined water and wastewater bill a typical residential house would pay.[a] Some Hunter Water customers also pay stormwater drainage charges to Hunter Water, which means their bills are higher.

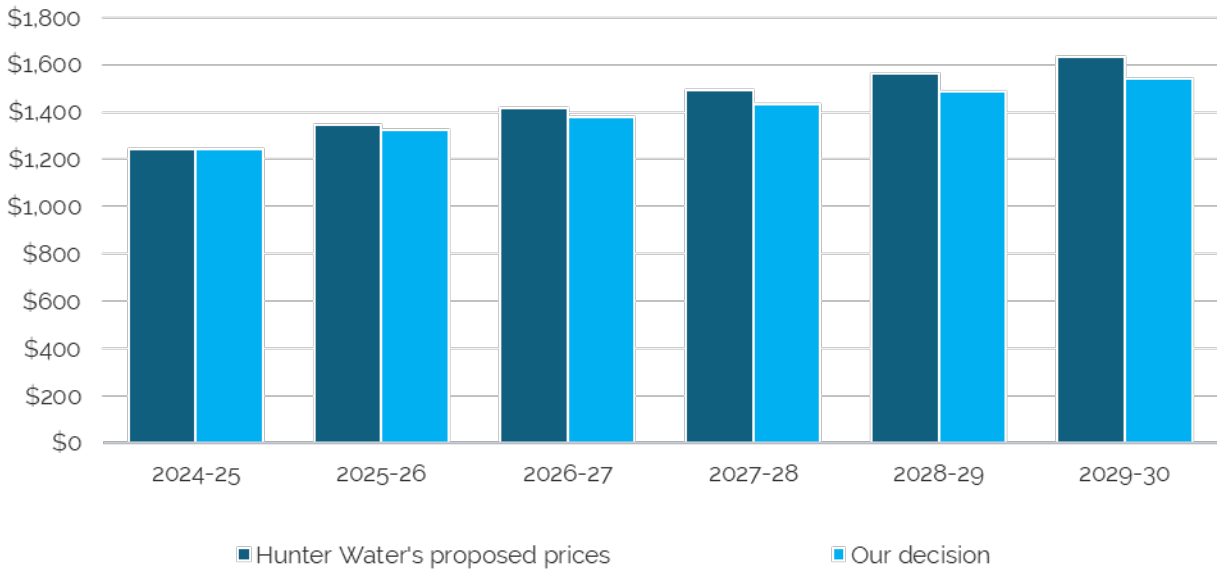
Our maximum prices see typical household bills for water and wastewater services increase in 2025-26 by $54 (or 4.4%) before we add inflation. After we add inflation as well, the overall increase in the typical household bill is $86 (or 6.9%) in 2025-26. This is lower than the increase under Hunter Water's proposed prices (of $105 or 8.5%, including inflation).[b] Typical bills then increase by an average of $53 (or 3.8%) a year plus inflation, in each of the following 4 years.[c] This is lower than Hunter Water's proposed increases of $73 (or 5.0%) each year plus inflation.

The typical household bill would increase from $1,241 in 2024-25 to:

- $1,326 in 2025-26 including inflation, which is $19 or 1.4% lower than proposed by Hunter Water in 2025-26[d]
- $1,540 in 2029-30 in the last year of the 2025 determination period, plus inflation, which is $97 or 5.9% lower than proposed by Hunter Water in 2029-30.

[a] This is based on consumption of 146 kilolitres a year, which is the average amount of water an individually metered house in Hunter Water's area of operations uses.
[b] Inflation for 2025-26 is 2.4%.
[c] It is difficult to forecast what inflation will be in the future, so we set prices in each year from 2026-27 to 2029-30 in today's dollars. We then calculate and add inflation to those prices on 1 July each year, when we know what the inflation rate has turned out to be.
[d] It is $1,295 in 2025-26 before adding inflation, compared to Hunter's Water's proposed bill of $1,314 on the same basis.

Figure 1.1 Comparing typical household bills under Hunter Water's proposed prices and our maximum prices ($2025-26)



Note: Typical household bills are based on a customer living in a house and using 146 kL of water per year. The bills shown above are for a typical household with water and wastewater services only. The bills in 2024-25 are in $2024-25. Annual bills from 2026-27 will be adjusted in line with inflation.
Source: IPART analysis

Price increases apply to usage charges more than service charges

Household water bills include fixed water and wastewater service charges, and a variable water usage charge. The water usage charge is important because it sends a signal to customers about how much water not only costs to collect, make safe and distribute – but also how expensive it will be to increase supply if needed. For Hunter Water we estimate this value to be at least $4.70 per kilolitre.

Our decision is to accept Hunter Water's proposal for the water usage charge to rise from $2.89 to $4.40 per kilolitre (plus inflation) by 2029-30. Hunter Water customers indicated that any price increases would be better added to the usage charge rather than the service charge, as this would allow them to make usage choices and potentially exert more control over their bills. Our decision is for the fixed service charges to generate the rest of the revenue we estimate Hunter Water will need to cover its efficient costs.

Households and businesses with low or moderate water usage may benefit from a higher water usage charge (and lower fixed service charges). However, we note that higher water users such as some large families and industrial customers may face a higher percentage increase in their bills.

We have balanced customer affordability with the need to protect services

Many households and businesses are grappling with higher cost of living pressures. Affordability was a key theme in the feedback we received on both our Issues Paper and our Draft Report. Hunter Water also stated in its pricing proposal it was the top priority for its customers.[2]

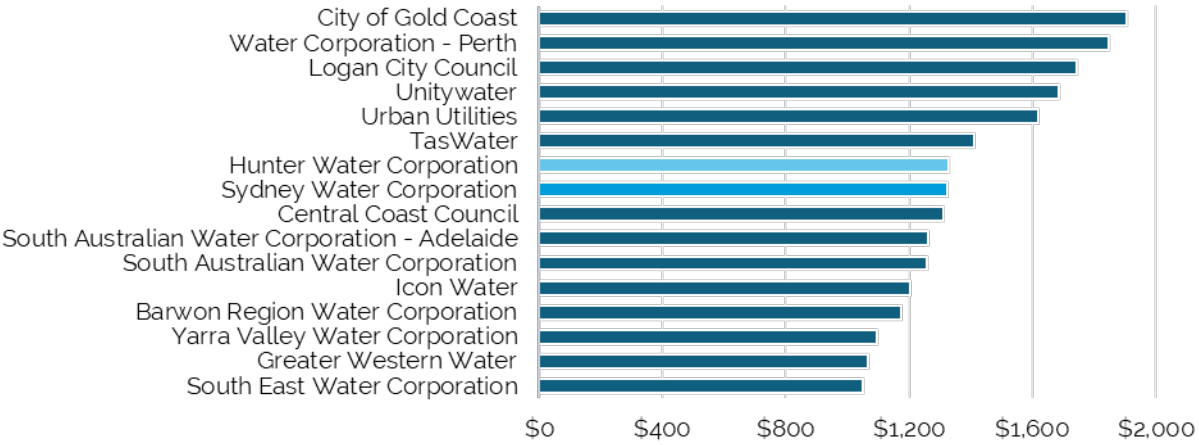
Our maximum prices increase more slowly than they might have over the next 5 years, while still aiming to raise the revenue Hunter Water needs to cover its efficient costs. Hunter Water proposed a similar price glide path.

This price path, where bills increase incrementally each year, helps to avoid 'bill shock' which can occur with a sudden jump in prices. We estimate that if we set prices so they only increased in 2025-26 and then didn't change across the following 4 years, the typical residential bill would be around $192 (or 15.5%) higher in 2025-26 compared to 2024-25 to generate the same revenue as our price path.[e]

Typical bills would be comparable to other Australian water utilities

As set out below, under our decisions Hunter Water's typical bill are around the average of other similar water utilities around Australia.

Figure 1.2 Typical annual bills for major utilities in 2025-26 ($2025-26)



Note: Figures shown for Hunter Water reflect our decisions on prices as set out in this report. Typical bills for Sydney Water reflect the prices set out in our Draft Report for Sydney Water prices 2025-2030. Figures for other major water utilities are from the Bureau of Meteorology 2023-24 and are CPI adjusted to $2025-26.

Source: IPART analysis using data from the Bureau of Meteorology

Typical bills under our maximum prices are moderately higher for most customers. However, one of our findings is that most residential customers should be able to afford the increases, albeit with some financial impacts. We note that most pensioners receive a pensioner rebate off their Hunter Water bill from the NSW Government.[f]

We have considered the issue of affordability carefully, knowing affordability concerns are different for different customers and different households.

The United Nations suggests that water costs should not exceed 3% of household income.[3] While we know that any price increases are unwelcome, our analysis suggests that under our prices, the typical customer in almost all customers groups does not breach this benchmark.

[e] In net present value (NPV) terms.

[f] The rebate each pensioner household served by Hunter Water receives is equal to 27.25% of the bill of a household customer who uses 200 kilolitres of water a year.

However, there is a small subset of customers who do exceed the 3% threshold and may need additional financial support. These are:

- recipients of Jobseeker payments
- couple households receiving the parenting payment
- low-income households with high water usage.

The current water pensioner rebate in NSW generally assists single and couple pensioner households to remain below the 3% threshold, but as highlighted above, certain households would exceed the threshold and could face financial hardship from the proposed increase in prices.

Hunter Water's proposal aimed to balance keeping bills affordable (by offering a range of hardship assistance programs for customers facing difficulties paying their bills), maintaining water quality and services and ensuring equity for future water customers. Our maximum prices result in customers only paying what Hunter Water requires to efficiently deliver quality water services.[g]

In addition, we have made recommendations to the NSW Government on improving the effectiveness of rebates to help moderate the impact on more adversely impacted households. These recommendations include that the NSW Government:

- considers temporarily expanding the eligibility of rebates to households that hold either a Health Care Card or Low Income Health Care Card
- considers temporarily increasing the rebate amount from 27.25% of a typical 200 kL/year bill to:
  - 28.0% in 2025-26 and increasing to 31.6% by 2029-30, if the eligibility criteria remain the same
  - 30.9% in 2025-26 and increasing to 34.1% by 2029-30, if the eligibility criteria are expanded to include Health Care Card and Low Income Health Care Card holders.

1.3 Increases in bills reflect efficient costs

The bill increases under our decisions are lower than the bill increases proposed by Hunter Water.[4] This is primarily because our decisions apply a weighted average cost of capital (WACC) of 3.3%, compared to Hunter Water's proposal which used a slightly higher WACC of 3.6%.[5] Our WACC calculation differs from Hunter Water's because it applies more up-to-date market data than was available at the time that Hunter Water calculated the WACC for its pricing proposal.

1.4 Price rises are necessary to support customer outcomes

The increases in maximum prices and bills are mainly driven by the efficient costs of new infrastructure, and in particular the proposed Belmont desalination plant.

[g] Hunter Water may charge prices below the maximum with the approval of the Treasurer.

Water security – Belmont desalination plant

Hunter Water has prioritised water security in this price period, and its proposal included around $460 million of capital expenditure to build a new desalination plant at Belmont.[6] This plant would provide a source of rainfall-independent water supply for Hunter Water's customers and is a key feature of the NSW Government's Lower Hunter Water Security Plan (LHWSP).

Hunter Water's pricing proposal indicates that the relatively low storage capacity of its major dams means its customers are exposed to unacceptable risk of severe water shortages in unprecedented droughts. The Belmont desalination plant is designed to address a very low probability drought event. The construction of the plant would change the annual probability of:

- reaching a storage level where stage 3 water restrictions and a total outdoor water ban would be implemented from 1 in 143 years to 1 in 400 years
- reaching a storage level where Hunter Water would risk of running out of water and could have to deliver water in rations from 1 in 1,429 years to 1 in 5,000 years
- reaching a storage level where Hunter Water is no longer confident that water would flow in its network from 1 in 50,000 years to less than 1 in 100,000 years.[7]

We engaged independent experts, Houston Kemp, to advise us on efficient levels of capital expenditure for this price period. Houston Kemp found that while Hunter Water demonstrated a genuine need for water security investment, this need was not immediately critical and investment in the Belmont desalination plant could be deferred – especially given the low probability of drought in the Lower Hunter region and the current cost of living pressures.

We have considered Houston Kemp's advice and agree that the drought risks targeted by the Belmont desalination plant are very low. However, we also recognise that there are other benefits the plant provides outside of drought resilience - for example, it could be relied upon during times of low water quality (such as water quality deterioration after bushfires or floods) to augment drinking water supply and ensure long-term water supply continuity. Our decision to include the desalination plant costs in Hunter Water's capital expenditure allowance considers these various benefits, as well as the need to address water security in the Lower Hunter region.

In reaching our decision we were conscious that Hunter Water chose to prioritise the Belmont desalination plant to deliver improved water security for its customers, and it sought to optimise the timing of its other capital works across price periods. However, we expect Hunter Water to regularly review its expenditure program and, if necessary, change its infrastructure priorities to optimise customer value using the revenue envelope our prices generate.

Burwood Beach wastewater treatment plant upgrade

Hunter Water's proposal allocates $130 million for major upgrades to its Burwood Beach wastewater treatment plant (WWTP).[8] These proposed upgrades would go towards stopping the release of sludge into the ocean at Burwood Beach and would improve secondary wastewater treatment systems at the plant.

Burwood Beach WWTP is the last remaining treatment plant in Australia disposing sludge into the ocean, and Hunter Water states that recent discussions with the NSW Environment Protection Agency (EPA) indicate that it would be required to stop doing so in the future. Hunter Water estimates that the cost of upgrading the plant to stop the sludge release would be $60 million over the 2025 determination period, with further capital costs continuing beyond 2030.

We recognise that some customers may consider that keeping prices lower should be a higher priority than pre-empting large capital costs for future environmental compliance – especially during periods of high cost of living. Others may place higher value on environmental sustainability and could be more willing to pay higher costs today to deliver immediate environmental benefits.

We made a decision to include the costs of upgrading the Burwood Beach WWTP in Hunter Water's maximum prices. Although Hunter Water is not currently breaching its licence by discharging ocean sludge, we acknowledge that the EPA has indicated its intention to change this requirement in the future. We consider it is important that the maximum prices we set enable businesses to adapt to changing environmental regulations.

1.5 We have considered all feedback received from stakeholders

We heard from a range of stakeholders over our consultation period including individuals, industry organisations, the Energy and Water Ombudsman NSW and the Justice and Equity Centre. We received 38 submissions to our Issues Paper, 20 submissions and 59 survey responses to our Draft Report and held a Public Hearing attended by 45 stakeholders who provided feedback on various aspects of Hunter Water's pricing proposal.

Many stakeholders raised issues relating to:

- affordability and the impacts of price increases on cost-of-living for different customers
- the use of fixed service charges versus variable usage charges, and the impacts of increased water usage charges on water use
- Hunter Water's proposed spending, including spending on the Belmont desalination plant
- the importance of spending on water infrastructure
- the transparency of spending.

Current cost of living pressures affect how much customers may be willing to pay for service outcomes. Furthermore, the amount customers are willing to pay can vary substantially between customer groups based on affordability and their individual circumstances. Equally, we have heard from many stakeholders on the importance of continuing to invest in assets to maintain high quality water services now and into the future.

We value the feedback that stakeholders have given us, and we have considered all views in reaching the decisions set out in this report. Chapter 3 of this report summarises what we heard from stakeholders in our review.

1.6 Final prices are higher than in our Draft Report

We have made several relatively small changes which will, overall, increase future prices and bills compared to the pries and bill impacts published in our Draft Report. These changes are summarised below, and have led to an increase in the typical residential bill of $4 in 2025-26, and by $22 plus inflation by 2029-30.

The changes we have made include:

- increasing the rate of return (the weighted average cost of capital – or 'WACC') Hunter Water should earn on its regulated assets from 3.2% to 3.3% due to changes in financial market cost of debt and equity
- reducing our estimate of the forecast revenue Hunter Water will receive from developers over the next 3 years to pay for growth assets
- lowering the rate of inflation we use to:
  - increase the value of Hunter Water's regulatory asset base (RAB) on which it earns a return, and a depreciation allowance
  - convert prices into $2025-26.

1.7 We assessed Hunter Water's pricing proposal as Advanced

Under the IPART Act we are required to consider a range of matters when setting maximum water prices. Our Water Regulation Handbook was developed to assist us in considering these matters, focusing on: **customers, costs, and credibility**. It is underpinned by 12 guiding principles which both IPART and water businesses use to develop and assess pricing proposals.

Under our water regulation framework, we ask each water businesses to self-assess its pricing proposal as either Standard, Advanced or Leading using our 12 guiding principles. We then conduct our own assessment on this grading using the same criteria. Our grading is an important element in shaping the approach we take in each price review.

We assessed Hunter Water's price proposal in view of how it understood and responded to customers' preferences. Our decision is to grade Hunter Water's proposal as Advanced, reflecting our findings that:

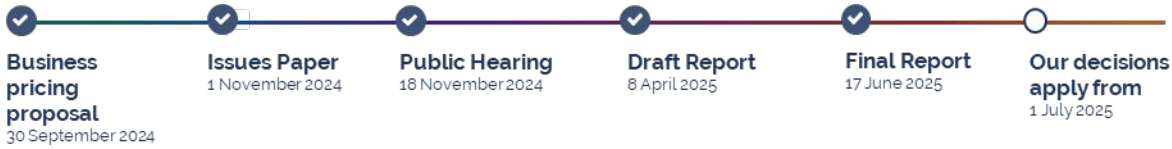
- Hunter Water has shown a commitment to delivering customer value, understanding customer preferences and integrating these into its decision-making processes.
- The proposal has identified spending levels linked to customer outcomes and that Hunter Water has made an effort to prioritise and defer expenditure where appropriate to address affordability concerns.
- Hunter Water has established clear plans for achieving its proposed outcomes, which are well aligned to outcomes that customers expressed were important to them.

Under our water regulation framework, an Advanced proposal grading allows us to undertake a more targeted review of a business' expenditure in the areas where there is greatest materiality, risk and uncertainty. This has helped shape the approach we took in assessing Hunter Water's costs, where we focused on areas like the Belmont desalination plant, where costs are more material and project outcomes are more uncertain. An Advanced proposal grading also makes Hunter Water eligible to receive a grading allowance, which is 1.25% of annual revenue requirement.[9]

Our water regulation framework was designed to hold water businesses accountable for being efficient and delivering value for money. Where we agree with a business that its proposal is Advanced, we proposed that the business share in the customer value created through an up-front financial allowance of 1.25% of the business' annual revenue requirement. This would provide the business additional incentives to innovate and deliver increased customer value.

However, we are very mindful of affordability concerns and the cost of living pressures currently being faced by consumers. IPART has also been directed by the NSW Government to address these pressures in our pricing reviews. In this context we have added this grading allowance to Hunter Water's regulatory asset base rather than including it as a cash allowance. This will reduce the impact on customer bills, because it is recovered over a longer period.

Figure 1.3 Timeline for our review



1.8 List of decisions

1.	To grade Hunter Water's pricing proposal as Advanced.	23
2.	To include $978.8 million of efficient operating expenditure in Hunter Water's notional revenue requirement for the 2025 determination period, as shown in Table 4.1.	36
3.	To assess Hunter Water's actual capital expenditure since 2019-20 as efficient, as shown in Table 5.1.	43
4.	To include $1.6 billion of forecast capital expenditure from 1 July 2025 in Hunter Water's RAB, as shown in Table 5.2.	44
5.	To set Hunter Water's notional revenue requirement as $2,426 million over the 2025 determination period.	54
6.	To set an allowance of $767.8 million for the return on assets component of the notional revenue requirement, noting that: – The opening RAB for the 2025 determination period is $4,111.2 million, and we added $873.1 million of capital costs (net of depreciation) for the period – We included a capital allowance for Hunter Water's 'Advanced' graded proposal in the corporate RAB, equivalent to 1.25% of the NRR for the 2025 determination period – We used a real post-tax WACC of 3.3% as the efficient rate of return.	57
7.	To set the return of assets (regulatory depreciation allowance) as $582.8 million.	59
8.	To set the return on working capital as $11.5 million over the 2025 determination period.	60
9.	To set the tax allowance as $88.9 million over the 2025 determination.	60
10.	To make the following revenue adjustments to Hunter Water's notional revenue requirement over the 2025 determination period: – $6.0 million for the Demand Volatility Adjustment Mechanism (DVAM) – -$10.0 million for the cost of debt true-up.	62
11.	To accept Hunter Water's proposal to not true-up its efficient costs incurred in the deferral year.	62
12.	To accept Hunter Water's proposal to maintain its existing cost pass-through for drought water usage prices.	63
13.	To maintain the existing price structure of variable and fixed components for water and wastewater pricing.	70
14.	To not accept Hunter Water's proposal to apply a minimum service charge to non-residential multi-premises customers that share a common meter.	70
15.	To set Hunter Water's maximum water usage charges to $3.27/kL in 2025-26, rising to $4.51/kL in 2029-30, as shown in Table 8.1.	81
16.	To set Hunter Water's maximum water service charges as shown in Table 8.3 for residential customers and Table 8.4 for non-residential customers.	81

17.	To set Hunter Water's drought uplift water usage price and raw water price as shown in Table 8.2.	81
18.	To set Hunter Water's maximum usage charge for wastewater services at $0.77/kL.	81
19.	To set Hunter Water's maximum wastewater charges for residential customers as shown in Table 8.6 and maximum wastewater service charges for non-residential customers as shown Table 8.7.	81
20.	To set Hunter Water's maximum stormwater charges as shown in Table 8.8.	82
21.	To set Hunter Water's trade waste and miscellaneous charges as shown in Appendix E.2 and E.3.	82
22.	To accept Hunter Water's revised list of performance outcomes, measures and targets.	108
23.	To apply the EBSS, CESS and ODI incentive schemes to Hunter Water as per its proposal over the 2025 determination period.	112
24.	To apply a 1% cap on the revenue adjustment across the ODI, EBSS and CESS over the 2025 determination period.	113

1.9 List of recommendations

Recommendations

1.	To improve the effectiveness of rebates, the NSW Government should: a. note that water rebates should be targeted to assist those most in need b. consider temporarily expanding the eligibility of rebates to households that hold either a Health Care Card or Low Income Health Care Card to the end of the 2025-30 Determination Period c. consider temporarily increasing the rebate amount from 27.25% of a typical 200 kL/year bill to: – 28.0% in 2025-26 and increasing to 31.6% by 2029-30, if the eligibility criteria remain the same – 30.9% in 2025-26 and increasing to 34.1% by 2029-30, if the eligibility criteria are expanded to include Health Care Card and Low Income Health Care Card holders. d. Explore the merits of a utilities rebate.	100

Chapter 2

Assessment of Hunter Water's pricing proposal

02

Summary of decisions on Hunter Water's pricing proposal grading

Grade Hunter Water's pricing proposal as Advanced

Our decision is to grade Hunter Water's pricing proposal as Advanced, consistent with our draft grading and with Hunter Water's self-assessment.

We found that Hunter Water met the guiding principles of our Water Regulation Handbook for an Advanced pricing proposal. This made Hunter Water eligible to receive a grading allowance of 1.25% of its annual revenue requirement over the 5-year 2025 determination period. Our decision is to award Hunter Water this grading allowance.

IPART sets maximum prices that Hunter Water can charge its customers for water, wastewater and water-related services, under the IPART Act. In setting these maximum prices, we assess Hunter Water's pricing proposal and make decisions to protect customers from the abuse of monopoly powers and ensure that the prices they pay are fair, efficient and aligned with their best interests.

In our assessment of Hunter Water's proposal, we carefully balanced the factors we are required to consider under the IPART Act. Each of the chapters in this report explain how we took into account these considerations in reaching our decisions on Hunter Water's costs, price settings, prices, and service standards.

The considerations under sections 14A(2) and 15(1) of the IPART Act have been central to our approach in setting maximum prices

We applied the considerations in the IPART Act and the letter from the Premier when setting Hunter Water's maximum prices. Those considerations include affordability, Hunter Water's cost of providing water, wastewater and stormwater services; the need to protect Hunter Water's customers from abuses of monopoly power; the effect of our prices on general inflation over the medium term; the need for Hunter Water to be more efficient so as to reduce costs for the benefit of its customers and taxpayers; the social impacts of our prices; and standards, quality, reliability and safety. In each of the subsequent chapters of this report, as well as Appendix A, we explain how we applied the considerations in the letter from the Premier and the IPART Act in setting Hunter Water's maximum prices.

We used our Water Regulation Handbook when we assessed Hunter Water's proposal. Our Water Regulation Handbook includes a water regulation framework based on customers, costs and credibility and provides a useful system for analysing the considerations the Premier required us to take into account as well as the considerations in the IPART Act we must or may take into account.

2.1 We applied our new water regulation framework

Our new water regulation framework, set out in our Water Regulation Handbook, aims to encourage each water business to develop pricing proposals that:

- promote their **customers'** interests
- keep their **costs** as low as possible
- enhance their business' **credibility**.

The framework is centred around water businesses developing pricing proposals that promote customer value. The framework encourages water businesses to actively involve and engage with their customers and bring customers into the decision-making process when they set outcomes. This is essential if water businesses are to identify better ways of delivering their services that align with their customers' preferences.

The framework is underpinned by 12 guiding principles (see Figure 2.1 and our Water Regulation Handbook).

Figure 2.1 The water regulation framework and the 12 guiding principles

Source: IPART, Water Regulation Handbook, July 2023, p 2.

Applying this framework, our review process includes 5 main stages:

1. The water business develops its pricing proposal. In doing so, we expect it to be guided by the framework's 12 principles and to engage with its customers.
2. Before submitting its pricing proposal, the water business is required to self-assess its pricing proposal against the guiding principles and grade it as either Standard, Advanced or Leading. The types of gradings possible under our water regulation framework are shown in Box 2.1 and the full grading rubric is available in Appendix B.
3. Once the water business submits its pricing proposal, we make a preliminary grading, and this helps us to set the approach of our review. Under our water regulation framework, an Advanced or Leading grading allows us to undertake a more targeted review of a business' expenditure, compared to a more forensic review.

4. We review the water business' pricing proposal. Our review included using our water regulation framework to assess how the water business engaged with its customers and the extent to which the water business' customers informed its pricing proposal. Our review also involved undertaking several rounds of consultations with stakeholders on the water business' pricing proposal and giving appropriate weight, using our water regulation framework as a starting point, to each of the considerations the Premier required us to take into account and the considerations in the IPART Act we must or may take into account.
5. We then make a final decision on the water business' grading, determining whether the pricing proposal promotes the long-term interest of customers at a Standard, Advanced, or Leading level, using the same guiding principles. If we grade the proposal as either Advanced or Leading, the water business may also be eligible to receive a grading allowance (see Section 2.3).

Box 2.1 There are 3 possible grades under the water regulation framework

The grades are:

- **Leading** – for businesses that are industry leaders in understanding their customers, innovating to deliver services customers want and driving costs efficiencies. The business also demonstrates how it delivers significant improvement in customer value through a combination of quantitative and qualitative evidence.
- **Advanced** – for businesses that demonstrate very strong understanding of their customers and are broadly at the cost efficiency frontier.
- **Standard** – for businesses that conduct meaningful customer engagement and have a credible path towards the cost efficiency frontier. This grade is consistent with good practice in the NSW water sector.

Source: IPART, Water Regulation Handbook, July 2023.

2.1.1 Hunter Water self-assessed its proposal as Advanced

Hunter Water self-assessed its pricing proposal as Advanced. In developing its proposal, it prioritised 5 focus principles that it considered reflected the most important current priorities for its customers. These focus principles were given greater emphasis in our review of the proposal compared to the other principles. Hunter Water's focus principles were:

- customer centricity
- customer engagement
- robust costs

- balancing risk and long-term performance
- commitment to improve value.

In making its self-assessment, Hunter Water told us it put 'customers and the community at the heart' of what it does. It said it implemented a robust customer engagement strategy that provided customers with a high degree of influence over topics important to them. It told us it has continued to engage with customers and the community to better understand its customers' needs.

On cost principles, Hunter Water told us that its proposed expenditure reflected the efficient costs of delivering its services that is consistent with its customer preferences while maintaining compliance with regulatory requirements. It told us that its investment and asset management decisions balanced the risks to customers and the business. It also told us that it would accept more risk to benefit customers and that it is resilient to absorb costs to do so. It has also committed to improving value for its customers through a cost efficiency strategy.

On credibility principles, Hunter Water told us that it was confident in its capability and commitment to deliver the investments and levels of services it proposed. It noted that its proposal was subject to a robust assurance process and was approved by its Board. Hunter Water told us it is committed to continual improvement.

More information on Hunter Water's self-assessment is available in its pricing proposal.[a]

2.1.2 Our preliminary assessment informed our approach to the review

Our preliminary grading for Hunter Water was Advanced (see our 2025 Hunter Water price review - Issues Paper). As a result, we undertook a more targeted review of its expenditure in the areas where there was greatest materiality, risk and uncertainty.

To inform our decisions we engaged independent experts, Houston Kemp, to review Hunter Water's proposed operating and capital expenditure. We asked Houston Kemp to specifically examine Hunter Water's:

- strategic planning and risk
- performance over the 2020 determination period
- proposed forecast operating expenditure
- proposed forecast capital expenditure
- proposed water demand.

Our decisions on Hunter Water's efficient expenditure are set out in Chapter 4 and Chapter 5 of this report.

[a] See Hunter Water 2024 Pricing Proposal, Attachment L: Self-assessment against the 3Cs framework, October 2024.

2.2 Our decision is that Hunter Water's proposal is Advanced

Our decision is:

1. To grade Hunter Water's pricing proposal as Advanced.

Our reasons for an Advanced grading

Customers

Hunter Water's pricing proposal integrated customer needs and preferences based on thorough and meaningful engagement with its customers. Over a multiple-stage comprehensive engagement program, Hunter Water provided genuine opportunities for customers to influence its proposal in areas that matter to them.

Costs

Hunter Water's proposed costs are robust and well-justified. It made conscious decisions to lower bills where possible, prioritise spending and balance risks to the benefit of customers. It also demonstrated a commitment to improving cost efficiency through an efficiency strategy.

Credibility

The credibility of Hunter Water's proposal is supported by a clear path towards meeting customer outcomes and achieving cost efficiency. Hunter Water showed a credible commitment on areas of improvement that are of value to customers.

We took a holistic approach to assessing Hunter Water's proposal. We considered Hunter Water's self-assessment of its proposal against each of the 12 guiding principles. However, we allocated a single grade to the proposal as a whole, rather than allocating a grade to each principle, consistent with our Water Regulation Handbook. This recognises that each proposal's grading may not be a simple weighted average of the grades for each of the 12 principles. It also reflects the importance of businesses developing robust pricing proposals that balance customer, cost and credibility outcomes according to customer preferences.

Our draft decision was to agree with Hunter Water's self-assessment of its pricing proposal and maintain our preliminary grading. This grading was supported by the Justice and Equity Centre, which noted that it considered Hunter Water's engagement had demonstrated genuine commitment and good practice.[10]

We received one submission that disagreed with our draft Advanced grading. The stakeholder considered that Hunter Water had been indifferent to what customers wanted and had not been fair in its proposed prices.[11]

We have maintained our draft decision to grade Hunter Water's pricing proposal as Advanced. In reaching this decision, we considered the matters set out in sections 14A(2) and 15(1) of the IPART Act.

Hunter Water demonstrated an Advanced proposal because it:

- Showed a commitment to delivering customer value, understanding customer preferences and integrating these into its decision-making processes.
- Demonstrated an Advanced level of customer engagement. Our review of Hunter Water's engagement found its comprehensive program provided opportunities for a broad range of customers to influence its pricing proposal on areas that mattered to them, and that it incorporated customer feedback into its pricing proposal. (Appendix C provides more information on Hunter Water's customer engagement).
- Identified spending levels linked to customer outcomes and showed that it had endeavoured to prioritise and defer expenditure where appropriate to address affordability concerns. It demonstrated a high level of accountability to make trade-offs to respond to customer preferences. We considered that its proposed capital and operating costs are largely robust and its key business systems processes, including risk management, asset management and procurement are also robust and mature.
- Established clear plans for achieving its proposed outcomes with designated timeframes and relevant performance targets.[b,12]
- Incorporated a reasonable productivity efficiency factor of 1%. Hunter Water also introduced clear incentive mechanisms to ensure it is accountable for cost efficiency outcomes covering capital expenditure and operating expenditure, and an outcome delivery incentive for leakage reduction.

In our Draft Report we considered there was some scope for Hunter Water to improve its next pricing proposal. This was related to customer engagement and customer outcomes.

In our Draft Report, we acknowledged that Hunter Water put substantial effort into its engagement program. It had a targeted approach to customer engagement on its pricing proposal which involved selecting priority topics for customers to influence. These topics were then deliberated, and the outcomes of engagement led to additional expenditure supported by customers on select topics. We considered Hunter Water's approach was reasonable because it focused on topics that customers could have a high level of influence on. However, we also considered that it was not clear whether customers understood how Hunter Water's full range of costs would meet customer outcomes overall, aside from the costs associated with the topics deliberated on. We recommended that in the future, Hunter Water engage on costs more broadly so that customers have a holistic understanding of the total value of their bills.[13]

In consultation on our Draft Report, the Justice and Equity Centre did not agree with this recommendation, cautioning against "any encouragement for Hunter Water to substantially alter [its] approach" to engagement. It explained its observations of the "significant effort… taken [by Hunter Water] to ensure the community understood the wider cost circumstances and drivers, how they were caused and where current decisions fit into the ongoing accumulation of these costs". It explained how Hunter Water's approach "[ensured] that all questions and issues regarding costs were answered".[14]

[b] In our Draft Report, we previously noted that some performance targets were yet to be determined, reviewed and refined. In its response to our Draft Report, Hunter Water provided a revised list of outcomes and performance targets.

We continue to consider that it is important for customers to have a comprehensive understanding of the value they are getting from what they pay for their water services, including how Hunter Water's spending and decisions will meet overall customer outcomes. Hunter Water submitted that it intends to work with IPART, its customers and other stakeholders to develop a common understanding about how to best enable customers to shape its future pricing proposals and outcomes.[15] We will continue to work with Hunter Water on this in the future through our early engagement with water businesses as part of our water regulation framework.

In our Draft Report, we considered that Hunter Water's proposal should include more outcome measures which may give customers more transparency over its performance.[16]

In response to our Draft Report, Hunter Water provided a revised list of performance outcomes, measures and targets.[17] We have accepted this revised list and consider that it is well balanced and would now provide customers with sufficient transparency into how it is delivering on key customer outcomes, while maintaining reporting that is accessible and clear for customers to engage with (see Chapter 10).

2.3 Our decision is to award Hunter Water a grading allowance of 1.25% of annual revenue requirement

Our water regulation framework allows businesses to earn financial rewards from submitting Advanced or Leading proposals that deliver customer value and demonstrate step changes in performance.

Each business is considered to start with a Standard grade until its first price review under the new framework. Where we agree with the business that its proposal is Advanced or Leading in its first price review under our new framework, the business becomes eligible to receive a grading allowance – calculated as a percentage of the revenue requirement added to the forecast revenue requirement. This provides a financial incentive for water businesses to engage with their customers and prepare well-justified proposals.

Where a business' proposal moves to a higher grading in a subsequent review – e.g. from Advanced to Leading, it would become eligible for another grading allowance. However, it would not be eligible for an additional allowance for maintaining an Advanced proposal grading at its next price review.

We also set financial penalties for a business where we find that its self-assessment is over-confident or where its proposal backslides from a previous grading of Advanced/Leading to Standard.

Since we have maintained our draft decision and have graded its pricing proposal as Advanced, our decision is to award Hunter Water a grading allowance. This is based on our level of confidence that Hunter Water's decisions are efficient and that its proposal promotes the long-term interests of customers.

The grading allowance is intended to drive continued performance in conjunction with other financial incentives of the water regulation framework (see Chapter 10). It provides an ongoing incentive for Hunter Water to be ambitious in managing its costs, be less risk-averse and strive to deliver customer value.

Our decision is to allow Hunter Water a grading allowance of 1.25% of its annual revenue requirement.[c] This would amount to, on average, $6 million per year over the determination period and would add around $6.80 per year to the typical residential bill over the 5 years.[de]

Our decisions on Hunter Water's revenue requirement and the maximum prices to recover this revenue (see Chapters 6 and 8) include this grading allowance. Hunter Water may decide how best to use the additional revenue from the maximum prices we set to promote customer value.

[c] For more information on financial incentives for Advanced and Leading proposals, see our Water Regulation Handbook, pp 11-12.
[d] In $2025-26 terms and is based on the typical water and wastewater bill.
[e] We cannot determine what bills would be if Hunter Water submitted a Standard proposal.

Chapter 3

What we heard from stakeholders

03

3.1 We consulted with stakeholders to inform our decisions

We gave multiple opportunities for stakeholders to have their say on this review:

- 1 November 2024, we published Hunter Water's 2025 pricing proposal and an Issues Paper summarising the key aspects of the proposal. We invited stakeholders to make written submissions over 5 and a half weeks.
- 18 November 2024, we held an online Public Hearing which allowed the community to let us know what they thought about the pricing proposal and ask questions directly to Hunter Water and to IPART.
- 8 April 2025, we published our Draft Report outlining our draft decisions on Hunter Water's proposed expenditure, prices and bill impacts. We invited stakeholders to make written submissions and complete a short customer survey over 4 weeks.

We heard from a range of stakeholders over the course of this review, mostly individual stakeholders. We also received submissions from organisations including the Property Council of Australia, Water Services Association Australia (WSAA), the Energy & Water Ombudsman NSW (EWON), and the Justice and Equity Centre (JEC). Hunter Water also made a submission to our Draft Report.

We thank all stakeholders for their time and effort spent to provide us with feedback through these avenues. We considered all feedback received to inform our analysis and decisions on Hunter Water's prices. Our consultation with stakeholders has helped us to consider the social impacts of our determination and recommendations under section 15(1) of the IPART Act.

3.2 What stakeholders told us

Throughout our consultation, stakeholders raised important concerns mainly around:

- affordability and the impacts of price increases on cost-of-living for customers and profitability for businesses
- setting fixed service and variable usage charges
- Hunter Water's proposed spending including the Belmont desalination plant.

3.2.1 Stakeholders raised concerns about price increases

Throughout our review, the affordability of prices has been a primary concern for stakeholders.

Several individual stakeholders considered Hunter Water's proposed prices unfair, unaffordable and unacceptable, particularly during cost-of-living pressures, and for customers facing bill stress.[18] Several submissions to our Draft Report indicated that our draft prices, although lower than what Hunter Water proposed, were still too high given cost-of-living pressures and concerns about services.[19]

Feedback in our survey showed that respondents considered affordability most important regarding Hunter Water's prices. They were concerned about their own cost of living, that prices may be higher than needed and that they may not get value for money. We found around half of survey respondents (29 out of 59) preferred price increases to be phased in than all at once, which would mitigate the impacts of price increases.

Stakeholders generally held a view that prices should increase in line with inflation or wages[20], although one stakeholder acknowledged that the draft price increases were not much greater than CPI.[21] One stakeholder suggested that IPART apply a more realistic annual base rate plus CPI increases and assess prices annually.[22] Another recommended we limit price increases using a range, similar to IPART's role for the local government rate peg.[23] [a]

The JEC and the EWON both submitted to our Issues Paper raising concerns about increasing affordability issues, suggesting we focus on mitigating the impact of price increases, examine rebates and make recommendations that would improve assistance programs.[24]

We also heard about concerns of the broader impacts of price increases, for example, on food production and business competitiveness.[25]

Mixed views on how to address hardship

In response to our Draft Report, the JEC and EWON supported our recommendation that the NSW Government should consider temporarily increasing rebates and expanding eligibility to address affordability for those most in need.[26]

One stakeholder supported financial support to struggling households but felt there should be more transparency around how much it costs.[27] Through our customer survey, we also heard support for increases to the pension rebate. One stakeholder questioned whether increasing prices for low-income households then offering bill relief was equitable.[28]

[a] We acknowledge the suggestion for an annual assessment of water prices. However, after extensive consultation on the water regulation framework, we decided that the default length of the pricing determination period be 5 years. This would facilitate and encourage better long-term planning. See our Water Regulation Handbook for more information. A business can propose a shorter (or longer determination period), but this needs to be clearly justified in its pricing proposal and supported by customers.

Affordability may vary across customers

We acknowledge the concerns about affordability but also recognise the differences in the abilities of customers to pay for price increases. One stakeholder noted that while they could manage Hunter Water's proposed prices, others would struggle.[29] Our survey results found that more than half of respondents indicated that they would be able to pay for prices increases under our draft decisions. Thirteen respondents indicated they could do this with little to no changes to their budget and 18 respondents indicated they would have to spend less on some other things and make changes to their budgets.

Some support for price increases

Some stakeholder supported the price increases. Water Services Association of Australia (WSAA) supported Hunter Water's proposed price increases to fund investment. It considered that the current short-term cost-of-living pressures should not outweigh the long-term opportunities for maintaining strong and effective utilities.[30] It suggested that Australia learn from the experience of other countries to better address water service issues and extreme weather incidents. It considered that the government should provide relief to those who struggle to pay their water bill to address affordability concerns. The Property Council of Australia, supported in principle that the indicative price increase [as proposed by Hunter Water] for Hunter Water customers is a funding stream for sustainable water service delivery.[31]

3.2.2 Stakeholders had opposing views about price structures

Feedback to our Issues Paper and Draft Report showed that price structures were an important issue.

Residential stakeholder submissions typically preferred price increases in variable usage charge to the fixed services charges. One stakeholder felt this would encourage water conservation[32] while another stakeholder considered water is priced too low.[33] Another felt it fairer to owners of rental properties that were unable to easily pass on costs to tenants.[34] One stakeholder questioned the fairness of fixed charges applying to households regardless of household sizes and the impact on smaller households.[35]

Some stakeholders felt that even more changes could be made to the pricing structure, including removing all service charges and increasing usage charges to cover costs[36] or introducing tiered pricing structure.[37]

However, we heard concern that increases in usage prices would disproportionately impact tenants[38]. One high-water user, a business owner, expressed an opposing view that increased usage charges disproportionately impact high-volume users. It considered the proposed price increases too large, and that the increased water usage costs would make the company uncompetitive in international markets. It also considered that it was unfair to be charged the same as domestic users and argued that Hunter Water should implement a bulk water usage discount.[39] We note that Hunter Water has provided large water user discounts (over 50,000 kL), however starting in 2021-22, this has been phased out and is set to finish this year.[40]

In response to our customer survey, over a third of survey respondents (23 out of 59) preferred increases to the draft water usage charge compared to 11 respondents that preferred increases in the draft water service charge. One business survey respondent considered it fairer to increase prices of fixed charges to spread costs on a broader base and felt that increases to the variable usage price penalised large water users.

Concerns regarding the fixed wastewater and stormwater service charges

One stakeholder considered the fixed wastewater fee to be arbitrary and unfair to customers who use less water.[41] Another considered wastewater charges should be dependent on usage and that the fixed charge does not put pressure on people to reduce water use. They also suggested bonuses for customers who install greywater facilities. [42] These views were consistent with feedback to our Draft Report.[43]

One stakeholder recommended that stormwater prices should be based on the land area of the property and allowances should apply to the stormwater charge where houses have a rainwater tank to catch roof runoff.[44] One stakeholder considered they pay twice for stormwater through charges paid to councils.[45]

Limited control over water bills

We recognised some customers wanted greater control over their bills through relatively higher variable usage charges. In our Issues Paper, we consulted on what stakeholders would do to respond to prices including how they could change their water use. One stakeholder suggested measures could include reducing lawn area, planting more hardy natives and installing a water-efficient irrigation system.[46] In our customer survey, we asked customers how easy it would be to reduce their water use. However, most respondents indicated that it would not be possible to use less water and that they have done all that is possible to minimise water usage.

3.2.3 Stakeholders had mixed views on Hunter Water's spending and funding

We consulted with customers on Hunter Water's proposed capital and operating expenditure in our Issues Paper and our draft decisions on this in our Draft Report.

Most stakeholder submissions to our Issues Paper provided general feedback on Hunter Water's proposed spending with a few stakeholders responding directly to Hunter Water's largest capital expenditure for the Belmont desalination plant.

A couple of stakeholders supported construction of the Belmont desalination plant,[47] especially considering the importance of maintaining high-quality services to support a growing population and providing resilience against extreme weather conditions. Stakeholders also noted deferring capital investments may result in costly rectification in the long run for short-term lower prices.[48]

Another stakeholder questioned the need for the desalination plant and considered it to be poor value for money. The stakeholder commented that while Hunter Water has put forward the case to act [i.e. where the desalination plant is imperative to address water security risk], they also noted that Hunter Water's proposal showed a downward water demand trend. They argued that the desalination plant may not be necessary, particularly in light of a cost-of-living crisis.[49] Another customer raised concerns that the bill impacts presented when consulting on the Lower Hunter Water Security Plan indicated a one-off increase between 6-9%, not an annual increase for 5 years as in its pricing proposal.[50b] This stakeholder suggested it was the NSW Government's duty to provide infrastructure for a state government-owned monopoly provider of essential services.

Several stakeholders also raised concerns over the funding for capital expenditure including maintenance, asset upgrades and the desalination plant. One stakeholder suggested funding should be set aside over time rather than asking individuals to bear the immediate financial burden.[51] Several stakeholders also suggested the desalination plant should be funded by state or federal governments.[52]

In response to our Draft Report, stakeholders provided further feedback on the Belmont desalination plant. While feedback was limited, it reflected varied views.

On one hand, we heard some support for Belmont desalination plant. WSAA expressed support for the plant[53] while another stakeholder, although concerned about the increasing costs, supported the plant provided there was third-party oversight, cost reviews, and other controls.[54] A quarter of respondents to our survey considered addressing water security through the Belmont desalination plant to be one of their top 3 priorities with regard to Hunter Water's prices.

On the other hand, a couple of stakeholders and some survey respondents indicated they opposed the plant. One considered the plant environmentally unfriendly, inefficient and an ongoing drain on resident's financial position.[55] One stakeholder felt that funds would be better spent addressing water contamination, aging water supply mains and overloaded wastewater infrastructure and reinstating the Tillegra Dam scheme.[56] Another stakeholder felt that most would not benefit from the desalination plant.[57]

Stakeholders questioned the funding avenues for infrastructure

Through our consultation we heard from various stakeholders who questioned the appropriateness of recovering the full costs of infrastructure or services from customers.

In response to our Issue Paper the JEC commented on how Hunter Water sought to optimise its capital expenditure in recognition of affordability concerns. It recognised the difficulties for customers bearing the full cost of growth infrastructure when it results from government policy, and suggested taking the desalination plant costs off bills, delaying cost recovery or making other arrangements to cover the costs.[58] It made similar comments in response to our Draft Report.[59]

[b] We note that Hunter Water's proposed annual price increases are due to customer preferences for price increases to be applied gradually through smaller increases each year over 5 years than through one large increase in the first year of the determination.

Others considered infrastructure and services could instead be funded through a reduced dividend to the NSW Government or through other Government funding avenues. Some of these concerns related specifically to the Belmont desalination plant, given the high cost for its delivery.[60]

We have heard stakeholder views on this matter, however, we note that IPART does not have a role in determining alternative funding avenues for infrastructure owned by regulated water businesses, like Hunter Water. In this price review we have set the maximum prices that Hunter Water can charge for its water, wastewater and related services. We have set these prices to recover only the efficient costs of infrastructure needed for Hunter Water to deliver its high-quality, safe and reliable services. This includes enough capital allowance for the delivery of the Belmont desalination plant.

3.2.4 Hunter Water supported most of our draft decisions

Hunter Water's submission to our Draft Report was broadly supportive of our draft decisions: the inclusion of expenditure for Belmont desalination plant and the efficiency targets, our analysis of customer engagement and the Advanced proposal grading. It noted 3 areas of concern and asked IPART to:

1. Maintain an allowance for tax on assets free of charge (AFOC), and implement an end-of-period true-up or cost pass-through mechanism to account for any over-recoveries of tax at the next price review.
2. Include an updated forecast of developer charges revenue, which was lower than the forecast included in its pricing proposal, to reflect more accurate estimates.
3. Apply discretion when applying the Efficiency Benefits Sharing Scheme (EBSS) and Capital Efficiency Sharing Scheme (CESS) at the next price review.[61]

3.3 We have considered all stakeholder feedback

Consultation with the community is an important part of our water pricing review process. We considered all feedback provided on Hunter Water's proposed prices in making our decisions on maximum prices to apply from 1 July 2025.

The following chapters explain our decisions including our considerations of stakeholder feedback.

Chapter 4

Operating expenditure

04

Summary of our decisions on operating expenditure

Hunter Water's efficient operating expenditure is $978.8 million over the 2025 determination period

We consider Hunter Water's business processes and systems are mature and it has proposed operating expenditure that is consistent with levels that an efficient business would incur in providing its services that meet customer needs.

We have made a decision to include $978.8 million of efficient operating expenditure into Hunter Water's notional revenue requirement build-up over the 2025 determination period. This is the same operating expenditure proposed by Hunter Water and is consistent with our draft decision.

This chapter sets out our assessment of the level of operating expenditure Hunter Water requires to operate its business efficiently over the 2025 determination period. Hunter Water's operating costs are the day-to-day expenses involved in running its business and maintaining the infrastructure and equipment it uses to provide services. It includes costs such as staff wages, electricity, contractors, treatment operations and insurance.

We have carefully reviewed Hunter Water's proposed operating costs using a base-trend-step approach, as outlined in our Water Regulation Handbook.[62] In reaching our decisions, we considered independent expert advice from Houston Kemp, additional supporting documentation provided by Hunter Water and comments from stakeholder consultation. Houston Kemp's report on its assessment of Hunter Water's expenditure forecast is available on our website.[63]

Our assessment of Hunter Water's operating expenditure balances the considerations set out in sections 14A(2) and 15(1) of the IPART Act, as well as the considerations the Premier asked us to apply. This chapter examines the economic costs of Hunter Water's production and services and assesses the efficiency in its supply of its services. In particular, we have made a decision on a continuing cost efficiency target that should allow Hunter Water to deliver high quality, reliable and safe services without being compromised. Our decisions on step changes to expenditure factor in the costs of complying with changing environmental regulations and customer expectations on service standards. We have compared Hunter Water's proposed future costs to its current and past levels of expenditure to inform our decisions. This chapter also discusses our assessment of costs where Hunter Water has entered into arrangements with other bodies to exercise its functions - including for instance, new treatment operations costs relating to Hunter Water's retendered treatment operations contract.

4.1 Hunter Water's proposed operating expenditure is efficient

Our decision is:

2. To include $978.8 million of efficient operating expenditure in Hunter Water's notional revenue requirement for the 2025 determination period, as shown in Table 4.1.

Table 4.1 Decision on Hunter Water's efficient operating expenditure ($million, $2024-25)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Water	64.0	64.2	65.4	66.8	66.2	**326.6**
Wastewater	65.0	65.3	65.9	65.9	65.9	**328.0**
Stormwater	2.0	2.0	2.0	2.0	2.0	**10.0**
Corporate	62.0	62.7	63.6	63.1	62.7	**314.2**
Total	**193.0**	**194.2**	**197.0**	**197.8**	**196.9**	**978.8**

Note: Figures may not sum due to rounding.

Source: IPART analysis

Our decision is that Hunter Water's proposed operating expenditure of $978.8 million over the 2025 determination period is efficient. This is $2.7 million (1.4%) higher per year, on average, than the allowance we used to set maximum prices in 2020.

This reflects our estimate of the efficient level of operating costs Hunter Water should incur in providing its services over the regulatory period. However, it is not a budget or an amount that Hunter Water is required to spend over the period. Forecasts, costs and unexpected events can change how much Hunter Water needs to spend, and what the priorities of the business are. Hunter Water should focus on continuing to provide value to customers, regardless of the estimated efficient costs we use to set maximum prices.

Hunter Water adopted IPART's base-trend-step methodology to forecast its operating expenditure for the 2025 determination period. This included:

- Establishing a base operating expenditure for 2023-24. This was formed by using its actual expenditure from July to March and forecast operating expenditure from April to June, then adjusting for climate variability, non-recurring costs, non-controllable costs and efficiency improvements.
- Applying a growth trend factor of 1.3% per year (corresponding to dwelling growth) and applying a real price input trend to forecast operating cost components including labour, energy, maintenance and treatment operations.
- Adjusting for any step changes in operating expenditure for additional focus on customer service outcomes, reallocating expenditure from capital to operating for digital technologies and operating the Belmont desalination plant.[64]

Hunter Water also proposed a cost efficiency target of 0.9%[a] per annum of its forecast operating expenditure over the 2025-30 pricing period.[65]

4.1.1 Hunter Water's proposed base operating expenditure is efficient

Hunter Water proposed a base operating expenditure of $175 million in 2023-24.[66] To help inform our decision on whether this is an efficient benchmark for future operating expenditure, our expenditure experts reviewed Hunter Water's actual expenditure against the efficient level of operating expenditure to set maximum prices in 2020 and evidence provided to support adjustments made for climate variability, non-recurring and non-controllable costs.

We consider Hunter Water operated efficiently over the 2020 determination period. Over the 2020 determination period, Hunter Water's actual operating expenditure was slightly lower ($20.6 million or 2.7%) than the estimated efficient costs we used to set maximum prices in 2020. This is set out in Table 4.2.

Table 4.2 Hunter Water's operating expenditure over the 2020 determination period ($million, $2024-25)

	2020-21	2021-22	2022-23	2023-24	Total
2020 allowance	196.0	193.1	193.3	189.8	**772.2**
Hunter Water's actual cost	188.9	182.3	185.0	195.3	**751.5**
Difference ($)	-7.1	-10.8	-8.3	5.5	**-20.7**
Difference (%)	-3.6%	-5.6%	-4.3%	2.9%	**-2.7%**

Note: Figures may not sum due to rounding.
Source: IPART analysis

Our independent expenditure experts, Houston Kemp, found that Hunter Water's processes for identifying and removing non-recurring and non-controllable expenditure from the base year was robust. Hunter Water clearly explained the reasons for the differences in spending including reduced spending from COVID-19 impacts in the earlier years and increasing wastewater treatment and maintenance costs from extreme wet weather conditions in later years. Houston Kemp's analysis also noted that Hunter Water performed well against its peers for most categories in benchmarking studies conducted by Water Services Association of Australia (WSAA) and National Performance Reports.[67]

Given the above, we consider Hunter Water's proposed base expenditure to forecast annual operating expenditure is efficient.

[a] Hunter Water proposed a cost efficiency target of 1.0% per year over the 6 years from 1 July 2025 to 30 June 2030. This equates to 0.9% per year over the 5 years from 1 July 2025 to 30 June 2030.

Hunter Water proposed some additional costs since its pricing submission

In February 2025, Hunter Water asked us to consider new cost information relating to its treatment operations contract. The new cost information follows the recent completion of Hunter Water's 2-year long procurement process for its retendered treatment operations contract. The cost increase proposed by Hunter Water amounts to $24.6 million over the 2025 determination period. Hunter Water states the cost increase is material and it cannot reasonably absorb this scale of costs within its proposed expenditure level.

We have considered these costs as required under section 15(1)(h) of the IPART Act. In reviewing the information provided to us by Hunter Water we consider that its proposed increase in costs for this purpose is likely to be accurate and is derived through a competitive tendering process. However, we consider there is scope for Hunter Water to absorb these costs within its envelope of efficient expenditure.

In its response to our Draft Report, Hunter Water submitted that given the scale of these costs, it would be "very challenging to reprioritise or find offsetting efficiencies to absorb these costs within [its] expenditure envelope".[68] Notwithstanding, Hunter Water noted that it still 'understood and accepted' the draft decision on expenditure and did not request we change our draft decision.

We have maintained our draft decision on Hunter Water's expenditure. Our final expenditure allowance does not make any adjustments to Hunter Water's proposed operating expenditure. We consider it is a mature organisation that is well equipped to reprioritise costs and seek efficiencies to absorb the proposed treatment operations cost increase within its envelope of allowed expenditure.

4.1.2 Trend expenditure is reasonable

We asked Houston Kemp to review Hunter Water's proposed growth trend factor and real input price change trend. Houston Kemp found that Hunter Water's growth trend of 1.3% and forecast energy, maintenance and treatment operation costs were reasonable.[69] However, it noted that Hunter Water's labour costs were likely to be conservative, and it would be open to IPART to adjust these costs upwards.[70]

We consider that there is inherent uncertainty in forecasting trend expenditure and applying a higher allowance for remuneration growth may impact Hunter Water's ability to negotiate future contracts. We consider that Hunter Water has demonstrated robust processes in how it has costed its proposed expenditure and should be able to manage increasing cost pressures within the funding envelope that it has proposed. Therefore, we agree with Hunter Water's proposed trend expenditure and have not made any adjustments to it.

4.1.3 Step changes in expenditure are efficient and justified

Hunter Water proposed to increase base operating expenditure by $40.7 million over the 2025 determination period for the following step changes:

- $10 million to deliver customer outcome commitments based on community panel recommendations

- $3.5 million for the operation of the Belmont desalination plant
- $22.4 million for the shift in digital solutions from capital to operating expenditure
- $4 million to deliver projects to meet regulatory requirements
- $0.9 million to support vulnerable customers.[71]

We consider proposed step changes in expenditure for community panel recommendations to address leakage issues, reducing carbon emissions and resolving repeat service problems are reasonable and efficient. It is also appropriate to reallocate expenditure from capital to operating to upgrade digital infrastructure to manage cybersecurity risks, support data protection and managing billing.

We have made a decision to accept Hunter Water's proposed step changes in full. We consider the step changes in operating expenditure allow an efficient funding envelope for Hunter Water to meet changing environmental regulations and, pursuant to sections 14A(2)(g) and 15(1)(f) of the IPART Act, support the provision of ecologically sustainable development and operations.

4.1.4 Hunter Water proposed a suitable target for ongoing efficiency

Cost efficiency targets are an important way for businesses to demonstrate a commitment to achieving ongoing efficiency and delivering improved value to customers.

Hunter Water proposed a cost efficiency target of 0.9% per year on its forecast operating and capital expenditure. For operating expenditure, this equates to a cost efficiency of $36.4 million over the 2025 determination period.[b] The efficiency factor is made up of a 'bottom up' component which identifies specific cost savings opportunities, and a 0.8% top-down efficiency factor applied to the remaining operating expenditure to reflect Australia's long-term average annual change in multifactor productivity. It identified a range of opportunities to achieve its efficiency targets including in digital transformation, workforce planning, its management of facilities and vehicles.[72]

Houston Kemp assessed Hunter Water's targets and stated that they were conservative, particularly given the growing cost pressures on customers and savings opportunities presented by technology. It recommended that a 1.5% efficiency target would be more appropriate in the current landscape and pointed to examples of other utilities in Victoria that are targeting 2% annual efficiency savings.[73]

[b] Hunter Water has set a cost efficiency target of 1.0% per year over the 6 years from 1 July 2024 to 30 June 2030. This equates to 0.9% per year over the 5 years from 1 July 2025-30.

We recognise businesses are now facing increasing cost pressures when operating, so we are cautious about setting targets that may adversely impact service levels and customer outcomes. We have considered Hunter Water's proposed efficiency target in the context of the overall level of risk it is taking on through its outcome targets, incentive schemes and expenditure prioritisation. With this in mind, we consider that Hunter Water's proposed 0.9% efficiency target is sufficiently challenging while delivering improved customer outcomes. Our decision is therefore to not make any adjustments to Hunter Water's proposed efficiency. In reaching this decision we considered that that this efficiency target meets the need for greater efficiency in the supply of services to reduce costs for the benefit of consumers and taxpayers, as required under section 15(1)(e) of the IPART Act.

In its response to our Draft Report, the Water Services Association of Australia (WSAA) supported adopting Hunter Water's proposed efficiency targets. It noted that Hunter Water's efficiency target was "challenging but achievable" and it opposed the higher efficiency target recommended by Houston Kemp, which it stated could jeopardise Hunter Water's ability to deliver on its service obligations.[74]

4.2 Hunter Water's expenditure for 2024-25 deferral year is efficient

In November 2021, we approved the extension of Hunter Water's current pricing period by one year, to 2024-25. This meant that prices remained constant at 2023-24 levels, and no operating expenditure allowance was set for 2024-25. As part of this review, we have assessed Hunter Water's expenditure in 2024-25 to ensure its costs were efficient and in customers' best interests.

Hunter Water's forecast operating expenditure is $195.9 million for the 2024-25 deferral year.[75] This is slightly higher than its average annual determination allowance of $193 million.[76] Hunter Water noted that that many of the cost drivers over 2020-21 to 2023-24 would continue into 2024-25, including non-recurring expenditure on digital transformation projects, increasing digital service costs and non-recurring costs for procuring a new treatment operations contract.

Houston Kemp assessed Hunter Water's expenditure over 2024-25 and found that while it experienced various increasing cost pressures, its forecast 2024-25 costs remain comparable to that of the prior year. Houston Kemp's view is that no adjustments should be made to Hunter Water's 2024-25 operating expenditure.[77]

We agree with Houston Kemp's assessment and consider that Hunter Water's forecast 2024-25 expenditure is reasonable in view of actual expenditure from the year prior, and the remaining cost pressures seen through the 2020 determination period. Our decision is to accept Hunter Water's proposed forecast operating expenditure for 2024-25 without any adjustments.

Chapter 5

Capital expenditure

05

Summary of our decisions on capital expenditure

We included all of Hunter Water's capital costs since 2019-20 in its regulatory asset base

We reviewed Hunter Water's capital costs since 2019-20 to determine whether they met the prudence and efficiency criteria to include them within its RAB roll-forward.

Our view is that all of Hunter Water's capital costs during this period were prudent and efficient. Our decision is to include Hunter Water's actual capital costs since 2019-20 to its RAB roll-forward.

We included $1.6 billion of efficient capital expenditure into Hunter Water's notional revenue requirement build-up over the 2025 determination period

We have made a decision to include $1.6 billion of Hunter Water's capital expenditure into the notional revenue requirement build-up for the 2025 determination period. These costs are largely driven by the Belmont desalination plant.

This chapter sets out our assessment of Hunter Water's capital expenditure required to deliver good quality services and promote customer outcomes. Hunter Water's capital costs are the investments it makes to buy, build and renew the infrastructure and equipment it uses to provide its services (e.g. water mains and pipelines, wastewater treatment plants, IT systems).

We have carefully reviewed Hunter Water's proposed capital costs in light of its long-term investment plan, the impacts of climate change on its assets and planning, growth in the Hunter region and the need to address priority customer outcomes and deliver value for money.

In reaching our decisions, we considered independent expert advice from Houston Kemp, additional supporting documentation provided by Hunter Water and comments from stakeholder consultation. Houston Kemp's report on its assessment of Hunter Water's expenditure is available on our website.[78]

Our assessment of Hunter Water's capital expenditure carefully considers the requirements set out in sections 14A(2) and 15(1) of the IPART Act. In this chapter, we assess the costs of Hunter Water's production and services and the efficiency of its historical and proposed capital investments. Our assessment also compares Hunter Water's proposed future costs to current and past levels of expenditure to inform our decisions. It focuses closely on cost efficiency and considers how Hunter Water's proposed capital investments would deliver upon its standards of quality, reliability and safety. These include capital investments aimed at meeting new or changing environmental regulations. The social impacts of major capital investments, including the Belmont desalination plant, are also considered in our assessment of Hunter Water's proposed capital costs.

5.1 Hunter Water spending over the last 5 years

Our decision is:

3. To assess Hunter Water's actual capital expenditure since 2019-20 as efficient, as shown in Table 5.1.

Our decisions on capital expenditure reflect our assessment of the prudent and efficient level of expenditure on capital works that should be included in a business' regulatory asset base and be recovered through prices. When we assess historical capital expenditure, we look at spend over the current determination period (2020-25), as well as spend over the final year of last determination period (i.e., 2019-20)[a].

Since 2019-20, Hunter Water's actual capital expenditure was slightly higher ($15.2 million or 1.4%) than the efficient funding envelope set in the 2020 determination. This is set out in Table 5.1 below.

Table 5.1 Efficient capital expenditure for the 2019-24 period ($million, $2024-25)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25[b]	Total (2019-24)[c]
Determination allowance	216.9[a]	248.2	220.9	198.0	169.1	n/a	1,053.1
Hunter Water's actual	218.3	215.9	182.7	213.7	237.7	266.8	1,068.3
Difference ($)	1.4	-32.3	-38.2	15.7	68.6	n/a	15.2
Difference (%)	0.6%	-13.0%	-17.3%	7.9%	40.6%	n/a	1.4%

a. This figure refers to the expenditure we determined as efficient in our 2020 review of Hunter Water's prices

b. 2024-25 figure is a forecast.

c. In this table, the total determination allowance considers only 5 years between 2019-20 and 2023-24. This is because no explicit allowance was set for 2024-25 period when the price review was deferred.

Note: Figures may not sum due to rounding.

Based on our initial assessment of Hunter Water's proposal and the minor overspend of its allowed capital expenditure, we did not consider it was necessary to conduct a detailed review of the efficiency of Hunter Water's actual capital expenditure since 2019-20. Although Houston Kemp didn't specifically review Hunter Water's historical capital expenditure, it found that Hunter Water generally did well at maintaining its capital spending within the target revenue it expected to receive from customers during the period. More importantly, we found that during this period Hunter Water continued to maintain high-quality services that met customer expectations on key outcomes. We consider that this signals a prudent and efficient use of its capital expenditure allowance in line with customers' interests.

We have decided to include all of Hunter Water's actual capital expenditure since 2019-20 in the regulatory asset base (RAB) to be recovered through prices in the upcoming and future periods. We did not receive any feedback from stakeholders on this issue during our consultation.

[a] We look at spend over the final year of last determination period (2019-20) because at the time of setting prices for our current determination period (2020-21 onwards) we would not have had a complete year of actual expenditure data from 2019-20 to assess its efficiency.

5.2 We have accepted Hunter Water's proposed capital expenditure

Our decision is:

4. To include $1.6 billion of forecast capital expenditure from 1 July 2025 in Hunter Water's RAB, as shown in Table 5.2.

The capital expenditure allowance we set for Hunter Water represents our view on the overall envelope of capital expenditure that we consider reasonable to maintain or improve Hunter Water's assets and services over the upcoming determination period, and that should be recovered through prices. It doesn't signal the amount it is required to spend on specific capital projects, or discrete allowances for specific works. We expect Hunter Water to continue to review its expenditure and service priorities and strive to optimise customer value. This may mean revising its capital program up or down, substituting operating costs for planned capital expenditure, or to shift expenditure between one service and another, where these changes are prudent, efficient, and in customers' best interests.

We have made a decision to accept Hunter Water's proposed capital expenditure of $1.6 billion over the 2025 determination period. Table 5.2 below summarises our decisions on Hunter Water's efficient level of capital expenditure for the 2025 determination period.

In the following sections we step through our analysis and explain how and we reached this decision. We also note areas where stakeholders commented on Hunter Water's capital expenditure, and how we considered those views in reaching our decisions.

Table 5.2 Decision on Hunter Water's efficient capital expenditure for the 2025 determination period ($million, $2024-25)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Water	322.0	264.5	153.8	134.0	79.3	953.8
Wastewater	69.0	76.9	94.1	111.6	120.2	471.9
Stormwater	9.1	6.5	6.4	6.4	6.4	34.8
Corporate	19.9	18.6	18.4	18.4	18.4	93.7
Total	**420.1**	**366.5**	**272.8**	**270.5**	**224.3**	**1,554.2**

Note: Figures may not sum due to rounding.

Hunter Water proposed $1.6 billion of capital expenditure over the 2025 determination period

Hunter Water has proposed investing $1.6 billion of capital expenditure across a range of projects.[79] This includes:

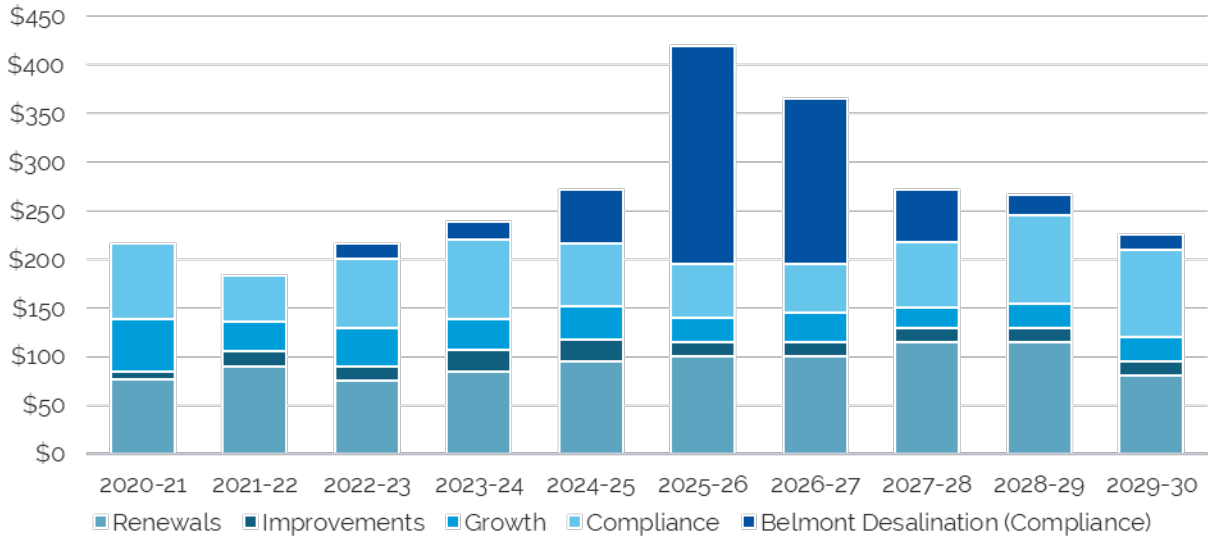
- **$512 million on water security**, mainly comprising expenditure on the new Belmont desalination plant as well as some leakage reduction works across its water network.

- **$387 million on environmental sustainability**, including upgrades to the Burwood Beach wastewater treatment plant to address ocean sludge discharges and stage 3 treatment works, increasing the operating capacity of the Morpeth wastewater treatment plant as well as numerous other wastewater network renewals to prevent dry weather overflows and replace ageing or vulnerable assets.
- **$298 million to provide reliable water services**, targeting replacements and augmentations in response to Community Panel recommendations to maintain consistency of water supply, ensure adequate water pressure for new and existing customers, and address areas of repeat failures.
- **$159 million for community and worker safety** through critical dam safety works at Grahamstown and Chichester dams, as well as various network and treatment plant upgrades.
- **$147 million for providing high-quality, clean and safe water**, mainly comprising treatment upgrades to the Grahamstown Water Treatment Plant and other water treatment asset renewals.
- **$93 million to deliver on other outcomes** spanning business enablement and addressing Community Panel recommendations on 'value for money and affordability'.[80]

It also proposed a $41 million efficiency target[81], bringing its total proposed capital costs over the 2025 determination period to $1.55 billion. It identified various cost efficiency programs to pursue over the upcoming period to deliver these efficiencies, including optimising its procurement by tendering bundled work packages and continuing early contractor involvement to drive construction phase efficiencies.[82]

Overall, Hunter Water's proposed capital expenditure is a notable uplift from spending levels in prior years – with a larger a portion of these costs expected to be incurred in the earlier years of the upcoming period. Figure 5.1 below compares Hunter Water's proposed capital expenditure for this period relative to prior years.

Figure 5.1 Comparison of Hunter Water's proposed capital expenditure to prior years ($million, $2024-25)



Source: Hunter Water, 2024 Pricing Proposal to IPART, September 2024, p 109.

Hunter Water prioritised capital expenditure and made trade-offs to keep costs lower for customers

In developing its proposal Hunter Water undertook an investment planning process that initially resulted in a capital expenditure program of over $2.1 billion over the 2025 determination period. It states that this investment scenario comprised of several well-justified and prudent projects to address compliance obligations and stakeholder expectations, with only modest improvements in other areas such as carbon reduction.[83] Upon progressing its customer engagement Hunter Water states that it chose to prioritise customers' want to keep bills as low as possible in light of the current cost-of-living pressures.[84] This resulted in a reprioritisation of its capital program that brought its planned expenditure down from $2.1 billion to $1.6 billion over the 2025 determination period. Hunter Water's proposal notes that it progressively reduced expenditure by testing what it meant for risks and outcomes, and that it decided to take on risk in areas where it could monitor performance and respond as needed if new risks emerged.[85]

We consider Hunter Water's key business systems and processes, including risk, asset management and procurement, are robust and mature. It has not been overly risk-averse in how it has forecasted its expenditure. It has demonstrated a high level of accountability taking more risk by reprioritising and making trade-offs in expenditure to manage customer affordability.

We note however that a large portion of Hunter Water's proposed capital expenditure is driven by the Belmont desalination plant. The desalination plant is expected to drive $460 million of capital expenditure over the 2025 determination period, roughly 30% of its total capital proposal.[86] In its investment planning process Hunter Water chose to prioritise the Belmont desalination plant to deliver improved water security for its customers and optimise its capital investment program. In choosing to do so, it reconsidered the timing of other capital works that could also deliver improved value to customers in other areas.[87]

Justice and Equity Centre questioned the value of other capital expenditure

In its submission to our Draft Report, the Justice and Equity Centre questioned if Hunter Water's proposed capital investment plan (which opted to prioritise the Belmont desalination plant) was in customers' best interests. It asked IPART to clarify the impacts on the long-term sustainability and quality of services provided by Hunter Water.[88]

We agree with the Justice and Equity Centre that although affordability is an important consideration in the present day, the long-term sustainability of Hunter Water's services is crucial to ensure that future customers do not face higher bills due to inadequate investment today. Under our regulatory framework, water businesses retain the responsibility to continually assess and prioritise planned capital investments in light of changing needs, customer expectations or costs. Hunter Water's proposed capital investment plan considers these changing factors and, in our view, makes informed and prudent decisions on capital expenditure.

In reviewing Hunter Water's capital investment plan, we considered this issue in depth and assessed it in the context of Hunter Water's asset management, risk and procurement processes, which we found to be robust. Hunter Water:

- Established risk appetites, business improvements and strategic objectives in its investment planning and applied these in its investment prioritisation. It stress-tested higher and lower investments and impacts on customer outcomes and risks in different scenarios.
- Balanced customer outcomes (obtained through its engagement program) with customer affordability
- Considered the deliverability of its plan as a whole and where relevant, it staged or rescheduled projects once their risks were assessed and mitigation controls were considered

Applying these considerations, Hunter Water's investment plan prioritised investments that targeted compliance obligations and stakeholder expectations. We consider that Hunter Water has not taken an inefficiently risk-averse approach in planning its capital expenditure.

We note that in setting prices, we determine an efficient envelope of expenditure which provides businesses with the flexibility to continually reprioritise important investments and deliver capital works in line with emerging risks and deliverability constraints. We assess capital expenditure incurred before we decide to roll it into the RAB. If new risks were to emerge in the 2025 price period, and Hunter Water needed to deliver previously deferred expenditure, our regulatory framework would allow for this to occur and for Hunter Water to recover the efficient costs of these investments in the next price period. We acknowledge that this could cause short-term financing challenges, but that these risks are not unmanageable for Hunter Water and would be expected from an equivalent competitive business.

We consider Hunter Water's capital expenditure proposal is prudent and efficient

Houston Kemp reviewed Hunter Water's proposed capital expenditure for the 2025 determination period and proposed:

- A lower bound expenditure allowance of $1.2 billion, whereby:

  - $344 million of expenditure on the Belmont desalination plant could be delayed given the low probability of reaching low water storage levels in the 2025 determination period, and
  - $1.8 million of expenditure on planning for biosolids treatment could be delayed until there is clearer guidance from the NSW Government on regulatory requirements
- An upper bound expenditure allowance of $1.6 billion, equivalent to Hunter Water's proposal without any adjustments.[89]

Houston Kemp's lower bound of $1.2 billion is primarily driven by its recommendation to defer a portion of capital expenditure for the Belmont desalination plant. Houston Kemp's analysis showed that there was a very low probability of reaching critical water storage levels in the 2025 price period. Specifically, it calculated that there was only a 1 in 50,000-year probability that storage levels would reach below the point where Hunter Water would have no confidence that water could continue to flow in its network.[90] Houston Kemp also expressed concern that Hunter Water did not sufficiently engage with its customers on trade-offs between water security risk and costs of deferring investment. Based on this, Houston Kemp concluded that it would be open to IPART to defer some of the investment on the Belmont desalination plant. It proposed that some portion of the expenditure ($178 million) could be incurred in this price period to reduce the timing risk for Hunter Water if it needed to construct the desalination plant in the future in a shortened timeframe.[91]

Houston Kemp also noted that despite these concerns, Hunter Water did demonstrate a genuine need for water security investment and that its community supported this investment driver in-principle.[92] Houston Kemp's upper bound recommendation was therefore to include the entirety of the Belmont desalination plant in Hunter Water's capital expenditure allowance.

We have considered Houston Kemp's report, Hunter Water's proposal, stakeholder views and undertook additional analysis on this matter. We consider Hunter Water's proposed expenditure represents a reasonable balance of risk, affordability and delivery of priority customer outcomes. The expenditure included within Hunter Water's proposal is generally well justified and tied to specific service outcomes for customers. Our decision is therefore to accept Hunter Water's proposed capital expenditure of $1.6 billion over the 2025 determination period, equivalent to roughly $311 million per year. This is $102 million (or 49%) higher on average per year than the allowance we used to set maximum prices in 2020.

As noted earlier, the major driver for Hunter Water's proposed capital expenditure is the Belmont desalination plant. While we set maximum prices based on an envelope of capital expenditure that promote customer outcomes, rather than an allowance for specific projects, it would be disingenuous not to assess the need for, and costs of this investment. This is because including this expenditure has crowded out other capital expenditure that may also have improved other customer outcomes. We discuss our reasoning for including expenditure for the Belmont desalination plant in the section below.

5.3 We consider it is efficient to include expenditure for the Belmont desalination plant in this period

The case and need for the Belmont desalination plant has been investigated by both Hunter Water and the NSW Government through the Lower Hunter Water Security Plan since 2021. This investment is:

- intended to provide a rainfall-independent supply and improve the water security for Hunter Water customers[93]
- designed to ultimately deliver up to 25% of Hunter Water's demand in times of drought[94]
- supported and approved by the NSW Government.[95]

The upper bound of Houston Kemp's recommendation is to accept Hunter Water's proposal to build the Belmont desalination plant and the lower bound is to defer some of the construction. Houston Kemp did not recommend any efficiency adjustments to how Hunter Water has costed this investment.[96] We consider the decision on whether to include the full costs of the Belmont desalination plant in Hunter Water's expenditure allowance requires a balancing of financial considerations, water security risks and commitments under the Lower Hunter Water Security Plan.

The Belmont desalination plant addresses a very low probability drought event

We acknowledge there is a genuine need to address water security risk in the Hunter region. However, we also recognise that the probability of a drought severe enough to completely deplete water storage is very low.

When storage levels fall below 40%, Hunter Water typically implements stage 3 water restrictions and total ban on outdoor water use. Houston Kemp's analysis found minimising the chances of reaching this trigger was a major driver for the desalination plant, but that the current chances of the triggers being met were already considerably low.[97]

Houston Kemp found that the construction of the Belmont desalination plant would change the annual probability of:

- reaching a storage level where stage 3 water restrictions and a total outdoor water ban would be implemented from 1 in 143 years to 1 in 400 years
- reaching a storage level where Hunter Water would risk of running out of water could have to deliver water in rations from 1 in 1,429 years to 1 in 5,000 years
- reaching a storage level where Hunter Water is no longer confident that water would flow in its network from 1 in 50,000 years to less than 1 in 100,000 years.[98]

In other words, the construction of the Belmont desalination plant could provide only marginal benefit to customers, given that it is designed to reduce a drought risk that is already considerably low.

Deferring only part of the construction may not be in customers' best interests

Although the drought risks targeted by the desalination plant are already very low, we acknowledge that water security remains an issue that must be addressed in the Lower Hunter region.

In this respect, Houston Kemp explored the option of deferring some of the construction of the Belmont desalination plant. In its lower bound capital expenditure recommendation, it suggested that given the extremely low drought risks in the current price period, Hunter Water could defer a large part of the construction costs and undertake only some necessary early works in the 2025 period.[99] These early works could reduce the timing risk for Hunter Water in the future if it needed to construct the plant within a shortened timeframe.

When we asked Hunter Water about the trade-offs of this staging approach, it noted that staging the plant construction would not materially shorten the lead time to deliver the plant reactively, highlighting that the current program has already been optimised so that long lead-time activities occur in parallel.

Given the above we consider that it is not in customers' best interests to defer only part of the expenditure for construction of the desalination plant. As such we do not agree with Houston Kemp's view that there are merits in undertaking only some capital works for the Belmont desalination plant in this period while deferring others to a future price period.

Hunter Water's customer engagement on the Belmont desalination plant was varied

A key reason for Houston Kemp's lower bound recommendation is that Hunter Water did not sufficiently engage with consumers on the trade-off between water security risk and the costs of deferring investment. Houston Kemp found that customers and the community were informed that the preferred Lower Hunter Water Security Plan (including the building of a desalination plant at Belmont) would cost around $220 million and was likely to add a one-off increase between $75 and $120 (i.e. a 6% to 9% increase) to customer bills in 2021. However, since this time the costs of the desalination plant have risen to $530 million and indicated bill impacts would be around $78 on average per year, every year, over the 2025 determination period.[100]

Hunter Water told us that even though they did not consult specifically on the bill impacts for this price review, they shared potential bill impacts of the desalination plant in a media release when they sought government approval to modify the plant design in January 2024. Hunter Water also noted that feedback from customers did not question the need for and timing of this project but rather questioned whether alternative funding arrangements would be available to alleviate affordability impacts.

Stakeholders expressed mixed views the Belmont desalination plant expenditure

Hunter Water supported the inclusion of expenditure for the Belmont desalination plant in prices for this period. It noted that although it did not directly engage with customers regarding their preference for water security over other outcomes, it based its decision on its learnings on customer expectations and priorities from earlier engagements.[101]

The Justice and Equity Centre questioned whether the Belmont desalination plant should be regarded as a 'trade-off' to other customer outcomes.[102] We agree with the Justice and Equity Centre and we consider that water security is an essential component of any drinking water service. Our assessment of the Belmont desalination plant costs considers the criticality of maintaining a safe and secure water supply. However, given the very low probability of drought risk targeted by the plant, and the high cost of its delivery, we have consulted on whether there are other important or more urgent outcomes that customers would prefer to be addressed in the immediate pricing period.

The Water Services Association of Australia also supported including the costs of Belmont desalination plant in the expenditure envelope, and cited the importance of incorporating rainfall-independent sources of supply to provide resilience to drought and other extreme weather events.[103]

A number of customers expressed concern about the Belmont desalination plant:

- One stakeholder was concerned about the increase in the estimated cost of the desalination plant, with one questioning whether further cost increases would be expected before completion of the project[104]
- One stakeholder felt that most Hunter Water customers would not benefit from the plant, despite having to pay for its costs through prices[105]
- Another questioned the extremely low risk of drought targeted by the Belmont desalination plant and whether this was a sufficient trigger for the investment.[106]

Some stakeholders questioned whether the desalination plant should be funded through customers' bills rather than via a reduced dividend to the NSW Government[107] or through profits from the sale of other land owned by Hunter Water, including the land purchased for the Tillegra Dam.[108]

The desalination plant addresses the need for water security in line with the Lower Hunter Water Security Plan

We have considered Houston Kemp's report, Hunter Water's proposal and stakeholder feedback on this matter. We also considered the scope of Hunter Water's customer engagement on the Belmont desalination plant since 2021, and how the outcomes of that engagement influenced its pricing proposal.

We agree with Hunter Water that the Belmont desalination plant provides important and necessary water security during periods of severe droughts. The desalination plant provides customers with long-term supply continuity and can be relied upon during times of low water quality (for example, following water quality deterioration after bushfires) to augment drinking water supply – as was also pointed out by the Water Services Association of Australia[109]. There is a genuine need to address water security in the lower Hunter region. Even though the Belmont desalination plant targets drought risks that are already considerably low, we consider it is prudent and efficient to include the plant costs in Hunter Water's envelope of efficient expenditure for this price period.

In reaching this decision to include the Belmont desalination plant costs in Hunter Water's expenditure allowance, we gave careful consideration to the matters set out in sections 14A(2) and 15(1) of the IPART Act. In particular, we examined the social impacts of the desalination plant in building disaster resilience and improving security of water supply, and we closely assessed the scope and efficiency of the costs with the help of independent expert advisors.

While we have included these desalination plant costs in the expenditure envelope for this period, Hunter Water continues to have discretion on how and when it makes capital expenditure decisions that reflect its customers priorities and are in customers long-term interests. In so doing Hunter Water should continue to make prudent investment decisions that deliver outcomes it has communicated with customers for this price period, including for instance, on water security.

Chapter 6

Other costs and notional revenue

06

Summary of our decisions on revenue requirement

We set Hunter Water's notional revenue requirement at $2,426 million over the 2025 determination period

This is $88 million or 3.5% lower than Hunter Water's proposal. This change is primarily due to due to a reduction in the return on assets allowance resulting from our use of a 3.3% WACC, rather than Hunter Water's calculated 3.6% WACC.

We continue to use the building block approach to calculate Hunter Water's notional revenue requirement, as is outlined in our Water Regulation Handbook.[110]

In Chapter 4 and Chapter 5 we discussed our decisions on Hunter Water's efficient operating expenditure and capital expenditure respectively. This chapter now outlines our decisions on the other remaining building blocks and adjustments, which are:

- returns on assets and on working capital
- return of assets (also known as the regulatory depreciation allowance)
- tax allowance
- revenue adjustments.

Our decisions on these building blocks consider the matters set out in sections 14A(2) and 15(1) of the IPART Act. Our framework for setting the weighted average cost of capital (WACC) is an important component of ensuring that the maximum prices we set for Hunter Water can promote competition and protect customers from the abuse of monopoly power. It ensures that prices only recover a reasonable rate of return that would be earned by a similar firm operating in a competitive market. The WACC also enables Hunter Water to maintain its dividend requirements to the NSW Government.

6.1 Hunter Water's notional revenue requirement is $2,426 million

Our decision is:

5. To set Hunter Water's notional revenue requirement as $2,426 million over the 2025 determination period.

Hunter Water's notional revenue requirement is calculated as a build-up of various cost components – such as operating expenditure allowances, capital allowances and allowances for tax. We refer to each of these cost components as 'building blocks'.

We have calculated each of these building block cost allowances and by adding them together, we arrive at a notional revenue requirement for Hunter Water of $2,426 million over the 2025 determination period. This amount represents our assessment of the total revenue Hunter Water must generate to recover the efficient costs of providing its services to customers.

Figure 6.1 summarises the notional revenue requirement using our standard building bock approach. The figures shown below are a total over Hunter Water's 5-year determination period.

Figure 6.1 Building block approach

	Cost building blocks	Total over the determination period
	Operating allowance (Operational costs including administration)	$978.8 million
	+	
	Capital allowances	
Return on assets +	= **Regulatory asset base (RAB)** = (Opening RAB + efficient capital expenditure – regulatory depreciation – asset disposals) x **Weighted average cost of capital (WACC)**	$767.8 million
Return of assets	= Regulatory depreciation of the RAB	$582.8 million
	+	
	Working capital allowance	$11.5 million
	+	
	Tax allowance	$88.9 million
	+	
	Other costs: Revenue volatility adjustment (DVAM) Cost of debt true-up	-$3.9 million
	=	
	Notional revenue requirement	$2,425.8 million

Note: All dollar values shown are in $2024-25 terms. Figures may not sum due to rounding.

Our decision on Hunter Water's notional revenue requirement is slightly (3.5%) lower than what Hunter Water proposed. This is primarily because our decisions apply a WACC of 3.3%, compared to Hunter Water's proposal which used a higher WACC of 3.6%. Our WACC calculation differs from Hunter Water's because it applies more up-to-date market data than was available at the time that Hunter Water calculated the WACC for its pricing proposal. Our final WACC of 3.3% is also slightly higher than what we calculated at the time of preparing our Draft Report, which was 3.2%.

Table 6.1 below compares our decision on Hunter Water's notional revenue requirement with its proposal.

Table 6.1 Decision on total notional revenue requirement for the 2025 determination period ($million, $2024–25)

	Hunter Water's proposed total NRR	IPART decision on total NRR
Operating expenditure	978.8	978.8
Return on assets	839.2	767.8
Return of assets (depreciation)	579.5	582.8
Return on working capital	11.1	11.5
Tax allowance	109.6	88.9
NRR before adjustments	2,518.2	2,429.7
DVAM	6.1	6.0
Cost of debt true-up	-10.1	-10.0
NRR after adjustments	2,514.0	2,425.8

Note: Figures may not sum due to rounding.

Source: Hunter Water price proposal and IPART analysis.

The following sections step through our decisions on each of the building block components of Hunter Water's notional revenue requirement – except operating expenditure, which has been explained earlier in Chapter 4.

A full breakdown of our decisions on Hunter Water's building blocks is provided in Appendix E.1

6.2 Return on assets

Our decisions are:

6. To set an allowance of $767.8 million for the return on assets component of the notional revenue requirement, noting that:
   - The opening RAB for the 2025 determination period is $4,111.2 million, and we added $873.1 million of capital costs (net of depreciation) for the period
   - We included a capital allowance for Hunter Water's 'Advanced' graded proposal in the corporate RAB, equivalent to 1.25% of the NRR for the 2025 determination period
   - We used a real post-tax WACC of 3.3% as the efficient rate of return.

We include an allowance for return on assets in the revenue requirement to account for the opportunity cost of capital invested to provide regulated services. This ensures businesses can earn an appropriate rate of return and continue to make efficient capital investments in the future, which is a required consideration under sections 14A(2)(e) and 15(1) of the IPART Act. We calculate the return on assets by multiplying the value of the regulatory asset base (RAB) over the determination period by an efficient rate of return.

We calculated a return on assets allowance of $767.8 million for Hunter Water over the 2025 determination period.

The value of the regulatory asset base by the end of the 2025 determination period is $4,984 million

In calculating the value of the regulatory asset base, we considered the appropriate value of assets that Hunter Water should earn a return on under our regulatory settings, pursuant to sections 14A(2)(e) and 15(1)(g) of the IPART Act.

The RAB represents the value of Hunter Water's assets on which it should earn a return on capital and an allowance for depreciation. We calculated the opening RAB for the 2025 determination period by 'rolling the RAB forward' from the previous determination period. To do this we:

- Added $1,199.9 million of historical capital expenditure from 2020 determination period, as discussed in Chapter 5.1.
- Deducted $461.5 million for regulatory depreciation of assets and asset disposals.
- Added $712.3 million to account for annual indexation of the RAB.

To calculate the RAB for each year of the 2025 determination period we then:

- Added $1,465.5 million of forecast capital expenditure, which is based on the efficient capital expenditure allowance set out in Chapter 5, minus cash capital contributions and asset disposals. This also includes a corporate capital allowance of $30.2 million for Hunter Water's 'Advanced' proposal grading (this is discussed further in the section below).
- Deducted $592.3 million for regulatory depreciation of assets

Our calculations result in the RAB increasing from $4,111 on 1 July 2025 to $4,984 million by 30 June 2030. Our full RAB roll forward calculations are shown in Appendix E.1.2.

We included a capital allowance for Hunter Water's 'Advanced' grading in the RAB

Our water regulation framework allows businesses to earn one-off financial rewards from delivering Advanced or Leading proposals that deliver customer value and demonstrate a step change in performance. Where we agree with the business that its proposal is Advanced or Leading, the business becomes eligible to receive a grading allowance – calculated as a percentage of the revenue requirement added to the forecast revenue requirement.

Since we have agreed with Hunter Water's self-assessment and made a grading of 'Advanced', Hunter Water is eligible for a grading allowance of 1.25% of its annual revenue requirement. We have added this grading allowance to Hunter Water's corporate RAB, with a return of capital over 12 years. Capitalising the grading allowance into the corporate RAB has the effect of spreading the impact of this allowance across 17 years[a], rather than just 5 years.

This would amount to, on average, $6 million per year over the determination period.

As noted earlier, this 'Advanced' grading allowance is only available to a business once – i.e., Hunter Water would not be eligible for an additional allowance for maintaining an 'Advanced' proposal grading at its next price review.

We made an adjustment for Hunter Water's developer charges revenue forecast

When calculating the Notional Revenue Requirement (NRR) in price setting, we subtract from the RAB the forecast revenue that we expect a utility to collect through developer charges (and other capital contributions including grants). This protects customers from paying for costs that are recovered through developer charges. To calculate the NRR for our draft prices, we accepted Hunter Water's forecast of developer charges revenue from its price proposal. This forecast was calculated using long-term growth trends.

In its response to our Draft Report, Hunter Water's proposed that its updated forecast be used for setting prices. The updated forecast is $23.5 million (13%) lower than the initial forecast, and uses in-train development applications to calculate near-term development rates (i.e., for the first 3 years of the determination period), and maintains its long-term forecast for the last 2 years of the determination period. Hunter Water states this will provide a more accurate estimate of developer charges revenue.[111]

We have accepted Hunter Water's updated developer charges revenue forecast. Given the NSW Government's zero developer charges policy since 2008, it is difficult to refer to a relevant time series to correlate annual growth rates with developer charges revenue. Notwithstanding, we consider that Hunter Water has applied a reasonable and balanced approach to forecasting developer charges over the 5-year determination period, using a combination of near-term and long-term estimates. This change has a minor increase on the NRR, relative to our draft decisions.

At the next price review, we will validate Hunter Water's forecast with actuals from 2025-30, and true-up any difference between the actual and forecast in the next RAB roll-forward.

[a] With the final reward allowance in 2029-30 being returned over the 12 years to 2041-42 – 17 years after the commencement of the 2025 Determination.

We used a real return on capital (post-tax real WACC) of 3.3%

As in previous reviews, we determined the rate of return using a weighted average cost of capital (WACC). We used our standard WACC approach[112] to calculate a WACC of 3.3% for Hunter Water's prices. This is lower than the 3.6% WACC that Hunter Water used to calculate revenue requirement in its pricing proposal, because we sampled more up-to-date market data than was available at the time that Hunter Water calculated the WACC for its pricing proposal in September 2024. It is also slightly higher than the WACC of 3.2% we calculated when setting draft prices.

In reaching our decision on Hunter Water's WACC we considered the matters set out in sections 14A(2) and 15(1) of the IPART Act.[b] Our WACC methodology ensures that the rate of return that we use to set prices is benchmarked to what would be earned by a similar firm operating in a competitive market. This means that customers' bills only fund an efficient and competitive rate of return, and it ensures that customers are protected from monopoly suppliers passing on inefficient costs through prices. Our inclusion of a WACC in the building block calculation also allows Hunter Water to maintain its dividend requirements to the NSW Government.

A full step-through of our WACC calculation is provided in Appendix D.

6.3 Return of assets (regulatory depreciation)

Our decision is:

7. To set the return of assets (regulatory depreciation allowance) as $582.8 million.

We include an allowance for depreciation in the notional revenue requirement to ensure that the capital invested by Hunter Water in its regulatory assets is returned over the useful life of each asset.

Consistent with our usual approach, we used the straight-line depreciation method to calculate regulatory depreciation. Under this method, the assets in the RAB are depreciated by an equal value in each year of their economic life. We consider this method balances the need for simplicity, consistency and transparency.

We did not make changes to standard asset lives for any asset types. Section E.1.3 in Appendix E shows our decisions on asset lives for the 2025 determination period.

[b] Specifically, we consider sections 14A(2)(d), 14A(2)(e), 14A(2)(h), 15(1)(b), 15(1)(c), 15(1)(g) and 15(1)(i) of the IPART Act.

6.4 Return on working capital

Our decision is:

8. To set the return on working capital as $11.5 million over the 2025 determination period.

The working capital allowance component of the notional revenue requirement represents the return the business could earn on the net amount of working capital it requires each year to meet its service obligations. It ensures the business recovers the cost it incurs due to the time delay between providing a service and receiving the money for it (i.e. when the bills are paid).

In 2018, we developed a standard approach to calculate the working capital allowance, which can be found on our website.

The amount we allowed for the 2025 determination period represents the holding cost of net current assets.

6.5 Tax allowance

Our decision is:

9. To set the tax allowance as $88.9 million over the 2025 determination.

When setting maximum prices we include an explicit allowance for tax because we use a post-tax WACC to estimate the allowance for a return on assets in the revenue requirement. This tax allowance reflects the regulated business' forecast tax liabilities. The tax allowance is not intended to recover Hunter Water's actual tax liability over the determination period. Rather, it reflects the liability that a comparable commercial business would be subject to.

We calculated the tax allowance for each year by applying a 30% statutory corporate tax rate adjusted for franking credits to the business's (nominal) taxable income.

Tax allowance for cash capital contributions

Regulated businesses can receive contributions from developers towards infrastructure for new development in 2 forms: as cash from developer charges or as assets constructed by the developer and gifted to the regulated business called assets free of charge (or gifted assets). When calculating a business's tax allowance in our notional revenue requirement, we typically include an allowance for income tax that they would need to pay on these developer contributions.

In our Draft Report, we flagged that we were considering refining our approach towards calculating tax allowances for cash capital contributions to account for imputation (franking) credits. We acknowledged that our usual approach of setting aside 30% of cash capital contributions for income tax does not account for the value of franking credits.

We have made a decision to adjust Hunter Water's tax allowance calculation to account for the value of imputation credits on cash capital contributions. To do so, we have set aside 22.5% of cash capital contributions for income tax, rather than our previous approach of 30%. Since the tax allowance for cash capital contributions is capitalised in the RAB, this change has had the effect of reducing Hunter Water's RAB by $12.4 million (or 0.25%) by 2029-30.

Box 6.1 Tax implications of assets free of charge

Assets free of charge (AFOC), or gifted assets, are assets gifted to a regulated business for no direct charge – by developers or governments. We do not include the value of these assets in a business' RAB because the business has not made any investment in them. By extension, customers should not have to pay for a return on (or of) assets for which a business has not incurred costs.

Generally, regulated businesses are required to pay income tax on assets received free of charge. To account for this income tax liability, we include a tax allowance for these assets in the NRR.

In our Draft Report, we flagged that we would consider removing the tax allowance for AFOC based on a recent ruling in the case of *Victoria Power Networks Pty Ltd v Commissioner of Taxation*[113].

However in its response to our Draft Report, Hunter Water urged us to maintain our approach of including AFOC in our calculation of the tax allowance building block. It outlined the work it has done since 2020 to assess the matter, and identified specific circumstances of the Victoria Power Networks case that it concluded were not directly applicable to itself. Hunter Water also noted that since the ATO is currently undertaking a broader review on this issue, it considered it was unlikely to be successful at receiving a private tax ruling while the review is ongoing.[114]

We have considered Hunter Water's submission and agree that at present, there are significant uncertainties surrounding the tax implications of AFOC. We consider that these uncertainties are too large to warrant a pre-emptive removal of the tax allowance from the NRR. As such, we have maintained our usual approach of including a tax allowance for AFOC in Hunter Water's prices.

We will continue to monitor the Australian Tax Office's (ATO's) review of the issue over this pricing period and will consider whether any changes might be warranted to our approach to setting tax allowances at the 2030 price review. If the ATO clarify any changes to the tax treatment of AFOC during this determination period, it would be open to a future Tribunal to true-up any resulting over-recoveries of the tax allowance from customers' bills in Hunter Water's next price review.

6.6 Revenue adjustments

Our decision is:

10. To make the following revenue adjustments to Hunter Water's notional revenue requirement over the 2025 determination period:
    - $6.0 million for the Demand Volatility Adjustment Mechanism (DVAM)
    - -$10.0 million for the cost of debt true-up.

11. To accept Hunter Water's proposal to not true-up its efficient costs incurred in the deferral year.

Demand volatility (DVAM) true-up

Under the price cap approach, we use a demand volatility adjustment mechanism (DVAM), to adjust for any over- or under-recovery of revenue resulting from actual demand being different to forecasts. The DVAM protects businesses from under-recovery due to lower than forecast water sales and protects customers in the case of any over-recovery through bills.

In 2020, we set the DVAM threshold at ±5% for Hunter Water.[115] This means Hunter Water is only able to recover the difference between its actual sales and forecast demand, *if* the difference is greater than ±5% over the price determination period. This 5% threshold incentivises businesses to accurately forecast and manage water sales. We make DVAM adjustments in the pricing period *after* the differences have occurred.

Between 2019-20 and 2023-24, Hunter Water's actual demand was lower than its forecast demand (as allowed by IPART in Hunter Water's 2020 price review). As a result, it under-recovered $53 million in revenue compared to what it initially forecasted under the demand assumptions applied to the 2020 pricing determination.

We applied our DVAM calculation methodology, including the 5% difference threshold, and calculated a revenue adjustment of $6.0 million for Hunter Water to account for demand volatility over the previous pricing period. We have made a decision to include this $6.0 million DVAM revenue adjustment to Hunter Water's notional revenue requirement for the 2025 determination period.

Cost of debt true-up

Our 2018 review of the WACC method introduced a trailing average cost of debt. Under this method the WACC changes every year as new tranches of debt are introduced to the trailing averages and the oldest tranches drop out.[116] In our 2018 WACC methodology, we decided that at each price review we would consider whether to:

- update prices annually to reflect the updates in the WACC annually, or
- use a regulatory true-up at the next period, which we would pass through to prices at the beginning of the next period.[117]

We have made a decision to use a true-up approach for changes to the cost of debt, consistent with our approach in Hunter Water's 2020 price determination. We consider this reduces price fluctuations within price periods for customers while ensuring that businesses are adequately compensated for changes in the cost of debt that occur within each price period.

We have calculated a cost of debt true-up for the 2020 price period of -$10.0 million. Our decision is to include this true-up as an adjustment to Hunter Water's 2025 determination period revenue requirement.

Deferral year true-up

In 2021 we agreed to defer the scheduled 2023-24 water price reviews for Hunter Water by one year. This meant that the 2023-24 prices set out in the 2020 Determination remained constant in nominal terms in 2024-25, and as a result, Hunter Water under-recovered its efficient costs over 2024-25.

Hunter Water did not propose to true-up the efficient costs it incurred in 2024-25. We have made a decision to accept Hunter Water's proposal as we consider that it is in the short-term interests of customers by keeping bills lower than they otherwise would be. In our view this position is in line with our assessment of Hunter Water's proposal as 'Advanced', and we consider that Hunter Water is well-placed to assess and mitigate its revenue risks, including by choosing to not accept a true-up for its revenue under-recovery over 2024-25.

Appendix E.1.7 steps through our calculation of what a deferral year true-up would be, had we made a decision to apply it to Hunter Water's notional revenue requirement.

6.6.1 Cost pass-throughs

Our decision is:

12. To accept Hunter Water's proposal to maintain its existing cost pass-through for drought water usage prices.

When there is a known, material cost that the business cannot control, we can include an up-front cost pass-through mechanism in the determination. However, a business can only automatically pass the costs through to customers within the determination period if the costs are actually incurred. Further information of our approach to cost pass-throughs is available in section 5.1.1 in the Water Regulation Handbook.[118]

Drought water usage pricing

We introduced dynamic water usage pricing in our 2020 price review, to reflect that water businesses faced additional costs during drought, and to send a stronger signal to customers to conserve water in periods of scarcity. Under the mechanism, the water usage price increases when water storage levels are low. Box 6.2 explains how the dynamic drought pricing mechanism works.

Hunter Water has proposed maintaining the cost pass-through for drought water usage prices. We agree with Hunter Water that setting a dynamic drought water usage price is an efficient mechanism to signal to customers the higher costs for water businesses to manage drought and incentivises customers to manage their water usage during drought conditions, and that the higher costs incurred by businesses during droughts are uncontrollable and should be recovered via a pass-through.

The Justice and Equity Centre (JEC) submitted that it did not support the current approach of drought pricing. It has maintained the position it has expressed in previous reviews, that it is not a fair or effective way to encourage water conservation and further that it was not tested meaningfully with the community. It disagreed with the characterisation of drought pricing as a 'price signal' to encourage conservation, considering that it is rather a transfer of risk from the business to customers. Further, it considered that this assumes that the capacity to manage these costs were higher for customers than for Hunter Water to improve efficiency and mitigate the risk of drought. The JEC recommended an alternative price structure such as an inclining block tariff (IBT) where the marginal water usage price increases as customers use more water.[119]

We have considered the feedback on drought pricing and our decision is to maintain the cost pass-through for drought water usage prices. In reaching this decision we considered, pursuant to sections 14A(2) and 15(1) of the IPART Act[c], the costs of Hunter Water providing its services during droughts. In our view, the drought pricing mechanism allows Hunter Water to recover the increased cost of providing its water services during droughts, within each pricing period. We recognise the dual role of this mechanism.

We maintain our view about IBT as expressed in 2020 Final Report on Hunter Water's prices.[120] We consider that it would penalise higher water use regardless of storage levels, disadvantaging larger families. It would also distort consumption and investment decisions given at any point in time, a price tier within an IBT would be either too low or too high. Further, in setting the tiers, it would be difficult to establish an essential or base level consumption that could apply to both residential and non-residential customers. Hunter Water did not consult on IBT with customers.

[c] Specifically, we considered sections 14A(2)(a) and 15(1)(j) of the IPART Act

Box 6.2 Drought pricing mechanism

The dynamic drought pricing mechanism means that the water usage charge varies between a non-drought price and a higher drought price, based on dam storage levels. The mechanism includes a 'rolling' trigger where the drought water usage price will apply from 31 days after dam levels fall below 60% and return to the base price 31 days after dams exceed 70% again.

The rolling trigger has various advantages:

- The 'on' and 'off' triggers are asymmetric so only a significant increase in water storage levels will turn off the drought price. This will minimise price volatility due to small fluctuations in dam levels and ensure that the water business has greater certainty of its funding for drought management projects.
- The drought price only applies for a limited time and is closely related to dam levels to closely reflect the water businesses' costs.
- By lagging the trigger by one month, a water business is able to communicate with customers about price changes, which would provide a better opportunity for customers to adjust their behaviour.

The water usage price is calculated by starting with the non-drought water usage charge, and then:

- Adding the efficient operating costs of responding to drought, including for instance, costs for implementing water conservation programs, costs incurred in enforcement or communications during water restrictions, or drought management overheads.
- Reducing water sales forecasts to reflect the impact of water restrictions.

Source: IPART analysis

Chapter 7

Price setting

07

Summary of decisions on price setting

We accept Hunter Water's forecast of its demand for 2025-30, which is that water demand will increase by 0.2% per year, as shown in Table 7.1

While Hunter Water expects that population growth will put upward pressure on demand, this will be largely offset by water efficiency improvements and changes in consumer behaviour, as well as declining non-residential demand.

Hunter Water's demand forecasting should be improved for the next price determination period by the inclusion of a price elasticity demand adjustment

Hunter Water's forecasts for this determination period are not adjusted to account for customers' potential demand response to higher water prices. It has not included an adjustment due to the uncertainty of price elasticity and considers this is in the customers' interest as an adjustment would increase prices.

We accept Hunter Water's proposal to maintain the DVAM at the same ±5% threshold

We agree with Hunter Water that its current arrangements to manage revenue volatility are robust, and appropriate to continue. This threshold means that Hunter Water only recovers the difference between actual and forecast demand if it is greater than 5% (above or below forecast).

Price structure

We accept Hunter Water's proposals for setting the usage charge of water and wastewater and have set the service charge to recover efficient costs.

Non-residential customers with a common meter

We do not accept Hunter Water's proposal to set a minimum service charge for non-residential customers with a common meter, and consider that Hunter Water should undertake further work to understand impacts on customers for the next determination.

This chapter sets out our approach to assessing Hunter Water's proposed:

- price control
- forecast demand
- price structure
- approach to managing revenue volatility for the 2025 determination period
- drought pricing
- discharge factors.

These elements ultimately inform the prices that we set, as outlined in Chapter 8.

In this chapter we discuss our decisions on forecast water demand, in which we take into account the matters set out in sections 14A(2)(i) and 15(1)(j) of the IPART Act in relation to demand management (including levels of demand). We also discuss feedback from stakeholders and our assessment of the social impacts of our current pricing structure on Hunter Water's customers, as required under section 15(1)(k) of the IPART Act. We have made decisions on price structures that we consider minimise these social impacts by:

- phasing-in price increases to minimise sudden bill impacts and
- allowing customers greater control over bills by allocating more of the necessary increases to usage charges rather than service charges.

7.1 Price control

Our decision is:

12. To accept Hunter Water's proposal to continue with the price cap approach to regulation.

In line with our Water Regulation Handbook, water businesses can propose a form of price control that is in their customers' interest. Also in our framework is that the default regulatory period lasts for 5 years. Hunter Water proposed to maintain its current form of control, which is a price cap. A price cap approach has some important benefits, such as:

- maintaining consistent revenue streams to support the business's operations
- providing predictable prices to customers.

Further information on price controls and the different forms is available in section 4.7.3 of the Water Regulation Handbook.

We accept Hunter Water's proposal to continue with a price cap approach for the 2025 determination period.

7.2 Water demand

Understanding past and future demand for water services is important for setting maximum prices. As required under sections 14A(2)(i) and 15(1)(j) of the IPART Act, we consider levels of demand by setting prices that use forecasts of:

- the number of customers we expect would receive water services in each year of the 2025 determination period (forecast connections)
- the volume of water we expect a water business would provide in each of those years (forecast water sales volumes).

Further information on demand forecasts and how businesses are required to justify their forecasts is available in section 4.7.2 of the Water Regulation Handbook.

There are many of factors which impact water demand. The most important factors are:

- the population mix, number of dwellings, and mix of residential property types
- water efficiency schemes influencing adoption of water saving technologies
- changing consumption behaviours, including the influence of water conservation campaigns
- demographics of customers, including age and socioeconomic status
- a changing and more variable climate.

Hunter Water considered these factors in its modelling to forecast demand.

We note that water demand over the 2020 determination period was 5.7% lower than forecast. Hunter Water explained this difference between forecast and actuals by downward pressure on demand by the weather being wetter than average, more conservation behaviours by customers, and impacts of COVID-19 such as on tourism. It also noted that actual population growth was higher than forecast, which placed upward pressure on water sales.[121]

7.2.1 We accept Hunter Water's forecast sales volumes

We consider that Hunter Water's demand forecasting approach is appropriate and it has applied a robust methodology. It is continuing its approach from previous determination periods, and has incorporated appropriate inputs including regional development plans, demographic trends, and historical growth.

While population growth continues, Hunter Water expects demand to be relatively flat. Water efficiency improvements, changes in consumer behaviour, and declining non-residential demand mean that forecast water sales volumes only increase marginally.

Hunter Water did not take price elasticity of demand into account in developing its demand forecast. In general, we would expect that price increases would reduce demand. Hunter Water has not made an adjustment because it considers price elasticity for water is uncertain, and it notes that it considers the increased price as a result of price elasticity would not be in customers' interest.

In our Draft Report, we considered that to continue to refine and improve its demand forecasts, Hunter Water should develop an approach to including a price elasticity adjustment to its future forecasts, and we expect this to be included in its forecast for the 2030 determination period. In response to our Draft Report, Hunter Water indicated that it would develop an approach and incorporate an adjustment in its future water demand forecasts.

The Justice and Equity Centre (JEC) did not support that Hunter Water should include a price elasticity adjustment to its future forecasts. It did not consider that there was strong evidence that changes in usage prices would substantively impact demand. It argued that

- water is not a price-elastic product as it is an essential service
- use is not directly driven by price
- the level of price change in water is not enough to drive an elastic water use response

- people's value for water and assessment of the cost impacts are generalised and driven by other factors.

It argued that in developing an approach for including price elasticity, these considerations be taken into account and that the approach is based on robust assessments of actual behaviour and household circumstances.[122]

While we recognise that water could be considered relatively price-inelastic, we maintain that developing an approach to include a price elasticity adjustment would improve demand forecasts. We agree that robust assessments of actual behaviour of household and businesses are important for developing this approach.

We accept Hunter Water's proposed demand forecast, as set out in Table 7.1.

Table 7.1 Decision on forecast water sales volumes (GL)

	2025-26	2026-27	2027-28	2028-29	2029-30
Sales[a]	60.07	60.24	60.39	60.61	60,62
Demand[b]	65.42	64.48	63.91	63.78	63.64

a. Water sold to customers, including treated and untreated water
b. Total demand including sales volumes, unbilled water usage, losses, etc.
Source: IPART analysis.

7.2.2 Demand volatility adjustment mechanism (DVAM)

We use DVAM as a tool to account for uncertainty. DVAM allows for an adjustment to a business' NRR to account for over or under-recovery of revenue due to material differences between forecast and actual water sales over the previous determination period. The DVAM protects businesses from under-recovery due to lower than forecast water sales, and protects customers in the case of over-recovery. In 2020, we set the DVAM threshold at ± 5% of forecast revenue from water sales, meaning an adjustment is only made if the difference between actual sales and forecast demand is greater than 5%.

We accept Hunter Water's proposal to keep in place the same arrangements, a ±5% threshold for the DVAM as for the 2020 determination.

7.3 Price structure

Our decision is:

13. To maintain the existing price structure of variable and fixed components for water and wastewater pricing.

14. To not accept Hunter Water's proposal to apply a minimum service charge to non-residential multi-premises customers that share a common meter.

7.3.1 We maintain the existing water price structure

For the 2025 determination period, we accept Hunter Water's proposals regarding price structure, which contained few changes to its overall price structure. We agree with Hunter Water that its structure has been refined over successive price determinations periods, and that it is fit for purpose.[123]

Chapter 8 outlines the fixed and variable charges a customer will have to pay for the 2025 determination period. This section discusses why we approved the proposed split between fixed and variable charges put forward by Hunter Water.

Water prices are split into 2 parts: a fixed service charge and a 'usage' charge. Hunter Water explained that it considers its proposal to increase the variable usage charge by more than the fixed service charge is in the customers' interest. Increasing the usage charge gives customers some ability to minimise the impact of price increases, by using less water. Hunter Water also considers that it is appropriate for the usage charge to increase, as it is consistent with the LRMC to signal that water is a limited precious resource.[124]

Hunter Water engaged with its customers on price structures for its pricing proposal, reflecting that customers showed a high degree of interest in price structures.

Hunter Water engaged with customers on whether:

- prices should increase with a large one-off increase in year 1, or a gradual phasing,
- increases should be passed on to customers via fixed charges, variable charges, or a mixture of both.

Hunter Water's customer engagement included online surveys and focus groups. As a result of this engagement, Hunter Water proposed to:

- increase prices in 5 smaller increments, rather than one big increase, as it reflects customer preferences to minimise impact on customers who are also experiencing higher cost-of-living.
- put more of the price increase on the usage charge, as customers prefer that to increasing the service charge. Reasons include because customers feel they have more control over usage, and because it promotes water conservation. In this engagement, few customers preferred all the price increase on one of either the service or usage charge, and the majority of customers preferred a mixture with most of the increase on the usage charge.

Feedback from our consultation was consistent with that of Hunter Water. Submissions to our Issues Paper and Draft Report showed that customers generally preferred usage charges compared to fixed charge, as usage charges would allow customers to control their bill through their usage. Findings from our customer survey showed that under our draft prices customers generally had a preference for phased-in price increases (29 out of 59 respondents). Around 39% of survey respondents (23 out of 59 respondents) preferred further increases in the variable water usage charge, while 19% (11 out of 59 respondents) preferred more increase in the fixed charge.

Our decision to maintain Hunter Water's existing price structure was made with careful consideration of the resulting social impacts, as required under section 15(1)(k) of the IPART Act. In particular, we considered that the phased-in price increases would limit sudden bill impacts for customers, and the greater weighting towards the usage prices rather than the service charges would enable customers to have greater control over their total bills.

7.3.2 Hunter Water's Long Run Marginal Cost (LRMC) estimates

LRMC is an estimation of the additional cost of providing an additional unit of water or wastewater. We use LRMC as a key reference point to set usage prices, as prices that relate to LRMC will promote efficient consumption.

To estimate LRMC, Hunter Water adopted IPART's algebraic methodology, and validated this against alternative methodologies which were used previously. It estimated the LRMC of water supply based on its water demand forecast and its planned investment. Hunter Water's best estimate of LRMC is $4.70 ($2024-25) per kL, which is above the current water usage price ($2.89 per kL in 2024-25).[125]

Table 7.2 Hunter Water's estimates of Long Run Marginal Cost ($/kL, $2024-25)

	Estimate over 30 years	35 years	40 years	45 years
IPART algebraic method	4.70	4.70	4.70	4.70
AIC method	4.61	4.73	4.55	4.29
Turvey method	5.53	4.97	4.65	4.31

Source: Hunter Water 2024 Pricing Proposal.

7.3.3 We maintain our approach to drought pricing

As set out in Chapter 6, Hunter Water has a dynamic drought water usage price that is added to the standard price when triggers are met (such as storages falling below a certain level). The price increase acts as a signal to customers to encourage water conservation, and to ensure cost recovery during periods of water restrictions when operating costs are higher, and water sales revenue is lower. Our draft decision on drought water pricing was different from Hunter Water's proposal as we corrected for an error in its assumption about when Level 1 restrictions would apply. This resulted in higher costs, and higher revenue shortfall, and consequentially, the drought usage prices increased to $0.55 per kilolitre (kL) (in $2024-25 terms). Our decision maintains the drought price at $0.55 in $2025-26 terms. We have made a further change to the drought price to correct for assumed forecast demand volumes. This has offset the change from indexing the prices to $2025-26 terms.

Table 7.3 Decision for drought uplift to water usage prices ($/kL, $2025-26)

	$2024-25 Current 2024-25	$2025-26 2025-26	2026-27	2027-28	2028-29	2029-30
Hunter Water proposal	0.50	0.45	0.45	0.45	0.45	0.45
IPART decision	0.50	0.55	0.55	0.55	0.55	0.55

Source: Hunter Water 2024 Pricing Proposal and IPART analysis.

7.3.4 We maintain the existing wastewater pricing structure

Similarly to water prices, wastewater prices are split into 2 parts:

- fixed service charge
- a 'usage' charge, based on estimated wastewater discharged.

We accept Hunter Water's proposal to retain the existing price structure and to calculate the service charge as a residual based on water meter size and discharge factors. We also note that Hunter Water referenced the LRMC and Short Run Marginal Cost (SRMC) in considering an indicative range for its wastewater usage charge.[126]

Hunter Water converts the size of a customer's water meter to a wastewater meter, to which the meter-based service charge applies. It applies the wastewater usage charge to the customer's estimated wastewater discharge volume (discharge factor multiplied by the volume of water used). The discharge factor reflects the percentage of a customer's water consumption that is assumed to be discharged to the wastewater network. We use discharge factors because, unlike water consumption, wastewater discharges are often not separately metered.

The wastewater usage charge includes a price per kilolitre of wastewater discharged or deemed to have been discharged into the wastewater system. The calculation of this charge depends on customer type:

- Residential customers pay for a deemed volume of wastewater discharge (discharge allowance). Due to the 'fixed' nature of this charge, it is included within the fixed service charge rather than as an explicit usage charge on customer bills. Residential customers are deemed to have a 20 mm meter and have a discharge factor of 75%.[127]
- Non-residential customers pay a wastewater usage charge.
  - A very small number of the largest customers have a wastewater meter connection, and the usage charge may be based on actual metered discharge.
  - Most customers do not have a wastewater meter connection, and thus the wastewater usage charge is based on metered water usage and a customer specific wastewater discharge factor. The wastewater discharge factor is set to reflect the estimated portion of metered water usage discharged into the wastewater system.[128]

The wastewater service charge is a fixed charge set at a level to recover the residual capital and operating costs of the wastewater system. Hunter Water considers that most of the costs associated with providing wastewater services are fixed and do not vary with the volume of wastewater discharged, and thus it proposes that its fixed service charge should recover nearly all of the wastewater revenue.[129]

Hunter Water engaged with customers on whether for residential wastewater prices, the fixed charge based on deemed usage should continue, or whether a variable component based on estimated discharge should be introduced. The engagement showed mixed support for reintroducing an explicit residential wastewater usage charge. Just over 50% of respondents supported the idea, however Hunter Water did not consider this was a sufficient level of support for change, particularly given the complexities of making such a change. Its engagement found that after explaining the charge further, there was more support for retaining the current structure. It had also observed that some stakeholders who preferred an explicit residential wastewater charge may not have understood that it would negatively impact them. For example, large household customers considered that an explicit residential wastewater usage charge could help them manage bills however it would also mean that their starting bill would be higher based on a higher water usage.[130]

Feedback to our Issues Paper and Draft Report raised concerns about the residential wastewater charges, particularly the fixed nature of the charge and its impact on households regardless of size. Some stakeholders considered a variable structure is fairer given the differences in water use across different sized households and the disproportionate impact on low-usage households.[131]

We acknowledge that customers would prefer greater variability in their wastewater bills, however, we have decided to maintain our draft decision, to accept Hunter Water's proposal to continue with its current approach and use the deemed usage for wastewater charges, and charge a fixed charge. We do not consider there is enough evidence to depart from the existing structure for residential wastewater charges. We also consider that the variability in bills is achieved through the variable water usage charge.

7.3.5 Estimates of marginal cost inform the wastewater usage charge

To promote efficient price signals, it is important that usage charges, where applicable, have reference to the long run marginal cost (LRMC). Hunter Water estimates that its LRMC of wastewater treatment of $0.62/kL, LRMC of wastewater networks is at least $0.07/kL. These estimates give a combined estimate for LRMC wastewater of $0.69/kL.

We note that Hunter Water estimated its short run marginal cost (SRMC), to be $0.25/kL. The usage price proposed is $0.77/kL (nominal) which is higher than both the SRMC and LRMC estimates.

Hunter Water proposed to maintain the current wastewater price of $0.77 per kL in nominal terms. Hunter Water considered a slight reduction in the usage price, reflecting the range of SRMC and LRMC estimates, but considered that a reduction could incentivise inefficiently high discharge in some catchments that have a higher LRMC and SRMC. It proposed that by maintaining the price in nominal terms, the price will gradually reduce with inflation and thus become more cost reflective. Hunter Water also considered maintaining the price will provide consistency across pricing periods.[132]

7.3.6 We accept Hunter Water's proposal for lower charges for apartments than houses

Separately to the structure of charges, Hunter Water proposed changes to calculating the residential deemed allowance which would result in different prices depending on whether customers live in houses or in apartments.[133]

In our 2020 determination, IPART put in place arrangements so that over time house- and apartment- owning customers would pay the same for wastewater services. This was envisaged in the 2013 pricing determination. Hunter Water recognised that there is no significant difference in the costs to provide wastewater services to house and apartment customers and has proposed to maintain this transition to align service charges. However, its proposed change to calculating the 'deemed allowance' would mean that apartments and house-owning customers would not pay the same wastewater services.

Residential customers are deemed to be served by a 20 mm meter and have a deemed allowance based on an assumed discharge factor of 75%.

Hunter Water proposed to change the deemed allowance for houses and apartments by using different average water consumption forecasts for houses and apartments, reflecting that apartments tend to discharge less than houses. Currently houses have a deemed discharge volume of 120 kL per year (75% of a 160 kL of historical typical residential water consumption) while apartments have an assumed deemed discharge volume of 111 kL per year which was set to match that of houses in the next determination. Hunter Water proposed to change this as it has found that average water consumption for apartments is below this at 102 kL/year. It proposed to use different deemed discharge amounts based on average forecast consumption:

- 126 kL for houses
- 77 kL for apartments.

The assumed 75% discharge factor would stay the same for both property types. The proposed changes to the assumed wastewater discharge volume (discharge allowance) would result in lower wastewater bills for customers that live in apartments.[134]

Overall, we accept the proposals for deemed discharge for residential customers.

Table 7.4 Decision on deemed discharge for residential customers (kL/year)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
House	120	126	126	126	126	126
Apartment	111	77	77	77	77	77

Source: Hunter Water 2024 Pricing Proposal and IPART analysis.

Non-residential customers

Non-residential customers are charged according to actual water meter size(s) and a customer-specific wastewater discharge factor.

- Properties with a 20 mm water meter are levied the same base charge as residential customers, before the application of a discharge factor. Customers with larger meters pay a proportionately higher base charge to which the discharge factor is then applied.
- Wastewater discharge factors depend on the nature of an individual customer's business. Businesses that typically discharge most of their water-use to the sewer, such as hotels, restaurants and petrol stations, have higher discharge factors. Businesses that use most of their water on-site, such as a garden nursery or golf course have lower discharge factors.[135]

7.3.7 We maintain the existing stormwater charge structure

Only about a quarter of connections (~72,000) receive a stormwater service from Hunter Water.[136]

Hunter Water calculated stormwater pricing in the same manner as previous price controls and proposed to retain the same price structure. Residential customers are charged for stormwater according to property type, and non-residential customers are charged for stormwater based on land size. Land size is a readily available proxy for the impact that stormwater customers have on the system, though Hunter Water acknowledge it is not a perfect proxy, as other factors such as topography, permeable surfaces, vegetation and property use also impact stormwater.[137]

Customers can apply to have their property designated as 'low impact' and to receive a lower stormwater drainage charge, if they take significant steps to manage stormwater on their property.

We accept Hunter Water's pricing structure for stormwater charges.

7.3.8 Charges for non-residential customers with a common meter

Hunter Water proposed applying a minimum service charge to non-residential multi-premises customers that share a common meter.[138]

Non-residential customers pay service charges based on their meters. Under the current determination:

- a non-residential customer in a multi-premises served by a common meter pays a share of the fixed charge for the common meter (shared between other non-residential customers also connected to the common meter)
- a non-residential customer with a separate meter (including a sub-meter) pays the fixed charge for the separate meter
- a non-residential customer in a mixed residential multi-premises pays the fixed residential charge (based on a residential property deemed to have a 20 mm meter).

Non-residential service charges are also adjusted based on discharge factors (assumed percentage of water usage that is discharged as wastewater).

A minimum adjusted wastewater service charge applies to non-residential customers. This is set at 75% of the 20 mm meter service charge and is consistent with the service charge paid by residential customers. We made this decision in 2020 to share the fixed costs of wastewater equitably between non-residential and residential customers. Without a minimum charge, non-residential customers with a 20 mm meter and a low discharge factor would pay significantly less than residential customers.[139]

We maintain the current price structure for non-residential customers

The current price structure means there are differences between what non-residential customers pay in service charges based on their metering arrangements. Non-residential customers in a multi premises that are served by a common meter (businesses in a large building) pay fixed charges that are less than what non-residential customers pay if they are:

- separately metered (e.g. a business in a stand-alone property)
- served by a common meter but are sub-metered where in this case these customers pay the fixed charge associated with the submeter (e.g. a business in a strip mall that has installed its own meter)
- in a mixed-multi premises (e.g. a business at the bottom of a block of residential units).

Hunter Water proposed that non-residential customers in multi-premises are subject to a minimum charge which would lessen the divide between similar non-residential customers that place similar costs on the system. This should apply to water and wastewater service charges.[140]

Hunter Water considered that this arrangement causes an issue where there is no incentive for these customers to install sub-meters. Hunter Water told us that non-residential customers have declined a sub-metering arrangement or have requested the removal of sub-meters from existing arrangements. Hunter Water would prefer these customers install sub-meters as this would allow customers greater control over their water usage and support water conservation.[141]

While we recognise there is an inequity under the current structure, we do not consider there is enough evidence to support a change in structure at the present time. Applying a minimum charge would lead to substantial impacts on non-residential customers, particularly in the first year of the next determination. Hunter Water told us that the proposed changes would impact:

- 2,227 wastewater properties
- 3,085 water properties.

Hunter Water provided analysis on the bill impacts on individual properties:

- Wastewater bill impacts in 2025-26:
  - the largest impact would be $703 (for 2 customers)
  - the median impact would be $540
  - 59% of properties would experience an increase in their wastewater bills by $500 to $700
- Water bill impacts in 2025-26

- the largest impact would be $42
- the median impact would be $35
- 40% of properties would experience an increase in their water bills by $35 to $40.

Hunter Water provided us with a sample of types of customers to help us understand customers that would be affected including customers currently serviced by a common meter. We do not have enough evidence on the types of non-residential customers to suggest that applying the minimum charge would remove the inequity without causing further inequity.

For example, of the types of customers presented that share common meters, there does not necessarily appear to be many customers that would benefit from sub-meters, and or are material water users, for example, retail stores, banks and other professional services. For these customers, it may be reasonable that they share the fixed costs of a common meter particularly if water use is reasonably shared (e.g. through common bathrooms and sinks). Charging a minimum bill that is substantially higher than what they already pay may be inequitable for these customers particularly.

Hunter Water highlighted how a takeaway food store under a common arrangement would pay less than a stand-alone retail store, when it would impose more costs to the system. We do not have enough evidence to suggest that this issue is widespread across non-residential customers, where there is reason for these customers to submeter.

We consider an appropriate approach is for Hunter Water to identify the non-residential customers in multi-premises that share a common meter where a sub-metering arrangement may be more equitable. It should work with them to encourage sub-metering, rather than applying a minimum charge to all non-residential multi-premises customers.

We note that Hunter Water's proposal would not apply to large shopping centres whose tenants pay rent to the shopping centre and where the shopping centre is treated as one large customer.

We consider revisiting this issue in the next determination would allow time for Hunter Water to gather more information about the impacts on non-residential customers as well as work with customers on sub-metering where this would be the preferred arrangement for them.

In response to our Draft Report, Hunter Water accepted IPART's position to maintain the existing structure for non-residential customers and not charge a minimum service charge for non-residential customers with a common meter.[142]

Chapter 8

Prices

Summary of prices

Maximum water prices will increase over the 2025 determination period

Our decision is to set the water usage price at the level that Hunter Water proposed, updated for inflation, and set the water service charge to recover the remaining efficient costs. The water service charge is on average about 41% less than Hunter Water's proposal.

The maximum water usage price allows an increase from $2.89 per kL in 2024-25 to $3.27 in 2025-26, and then to $4.51 per kL in 2029-30. Water service charges are also increasing.

Maximum wastewater prices will increase over the 2025 determination period

Our decision is to set the wastewater usage charge to the level proposed by Hunter Water, which has been maintained constant in nominal terms. We have set the wastewater service charge to recover the remaining efficient costs, which is on average about 3.4% lower than Hunter Water's proposal.

Maximum stormwater prices will increase over the 2025 determination period

Stormwater prices are fixed charges, and we have set the maximum prices to recover efficient costs, which is on average about 4% lower than what Hunter Water proposed.

Hunter Water currently provides 3 main services to customers:

- water services
- wastewater services
- stormwater services.

Hunter Water's prices for **water services** have 2 components:

- a variable usage price (expressed as $ per kilolitre (kL) of metered water supplied)
- a fixed service price (expressed as $ per year).

There is also a different water usage price if customers do not receive treated water (raw water), and an increased price for drought.

Hunter Water's prices for **wastewater services** comprise 2 components:

- A fixed usage charge based on deemed usage and a price of $ per kL. Wastewater discharge volumes are not directly metered.
  - Non-residential customers pay wastewater usage charges based on *inferred* discharge volume (a customer specific discharge factor × metered water consumption).
  - Residential customers pay wastewater usage charges based on a *deemed* discharge volume (126 kilolitres per year for houses, and 77 kilolitres a year for apartments).
- A fixed service price (expressed as $ per year).

Hunter Water's price for **stormwater services** is one fixed charge that applies to about a quarter of connections, who receive a stormwater service from Hunter Water. Stormwater charges are based on:

- property type for residential customers
- land size for non-residential customers.

Hunter Water also provides some recycled water and trade waste services to certain customers.

This chapter sets out the maximum prices for Hunter Water's regulated services under our decisions. These maximum prices bring together the decisions made in the previous chapters of this report, including operating expenditure (Chapter 4), capital expenditure (Chapter 5), tax, regulatory depreciation, return on assets and other pricing building blocks (Chapter 6) and price structures and settings (Chapter 7). In setting these maximum prices, we considered how customers can be protected from abuses of monopoly powers in terms of prices, pricing policies and standard of services, as required under section 15(1) of the IPART Act. When setting maximum prices, we ensure that Hunter Water recovers only the efficient costs of providing its services, and that those services are delivered to an appropriate standard of quality, reliability and safety.[a] In this chapter we also set out our decisions on prices for other monopoly services provided by Hunter Water, including miscellaneous and ancillary services.

We present these maximum prices in $2025-26 terms.[b] We presented our draft prices in our Draft Report in $2024-25 terms.

Our decisions are:

15. To set Hunter Water's maximum water usage charges to $3.27/kL in 2025-26, rising to $4.51/kL in 2029-30, as shown in Table 8.1.

16. To set Hunter Water's maximum water service charges as shown in Table 8.3 for residential customers and Table 8.4 for non-residential customers.

17. To set Hunter Water's drought uplift water usage price and raw water price as shown in Table 8.2.

18. To set Hunter Water's maximum usage charge for wastewater services at $0.77/kL.

19. To set Hunter Water's maximum wastewater charges for residential customers as shown in Table 8.6 and maximum wastewater service charges for non-residential customers as shown Table 8.7.

[a] Pursuant to sections 15(1)(a) and 15(1)(l) of the IPART Act.
[b] Except for the wastewater usage charge per kilolitre, which is fixed at $0.77 in each year of the determination period.

20. To set Hunter Water's maximum stormwater charges as shown in Table 8.8.

21. To set Hunter Water's trade waste and miscellaneous charges as shown in Appendix E.2 and E.3.

8.1 Decisions on maximum water, wastewater and stormwater prices

8.1.1 Water charges

The tables below present our decisions on maximum fixed and variable prices for water. These prices are in $2025-26. Prices from 2026-27 to 2029-30 will be subject to yearly inflation.

Water charges will increase, as we have maintained our draft decision to accept Hunter Water's proposal to increase the water usage charge significantly and increase the service charge by a relatively lesser amount.

Hunter Water proposed only minor changes to its current price structures, and notes that this structure has been refined over successive price controls and following our Water Regulation Handbook. We consider that Hunter Water set its usage price with reference to its estimates of long run marginal cost (LRMC), and that it has engaged with customers on its price structure.

We consulted customers through our customer survey on whether they wanted further changes to our draft water usage charges and our draft water services charges. Around 40% of survey respondents (23 out of 59 respondents) preferred further increases in the variable water usage charge, while 19% (11 out of 59 respondents) preferred more increase in the fixed charge. Eight respondents did not recommend a change to the draft decision.

We considered the preferences for higher increases in the variable water usage charge and acknowledged that increasing usage charges more than service charges would allow customers greater control over their bills, through changing water use. However, we considered that the impact this could have on bills in practice could be limited. When we asked about reducing water use, most survey respondents (44 out of 59) indicated either a limited ability, or no ability, to reduce water. This was also consistent with feedback to our Issues Paper where we heard from one business customer that had already reduced its businesses' water use as much as possible.[143]

Overall, we consider that the mixed views regarding variable and fixed charges suggested that our decision is appropriately balanced. We have maintained our decision on water charges, accepting Hunter Water's proposed water usage charges and its proposal to increase the water usage charge significantly and increase the service charge by a relatively lesser amount.

In reaching our decision, we also considered feedback that further increases in the variable charge would also negatively impact renters that pay water usage charges and who may have limited ability to improve efficiency of water fixtures and agency to resolve water leakages (as described by the Justice and Equity Centre (JEC)).[144] Further increases could also negatively impact large households such as large families and businesses.

Table 8.1 Water usage charges ($/kL, $2025-26)

	$2024-25 Current 2024-25	$2025-26 2025-26	2026-27	2027-28	2028-29	2029-30
Hunter Water proposal	2.89	3.27	3.57	3.89	4.20	4.51
IPART decision	2.89	3.27	3.57	3.89	4.20	4.51
Annual change (%)		13.1%	9.2%	9.0%	8.0%	7.4%

Note: The change between 2024-25 and 2025-26 includes inflation. Prices between 2026-27 and 2029-30 will be subject to yearly inflation.

Source: Hunter Water 2024 Pricing Proposal and IPART analysis.

Table 8.2 Water usage charges – raw water and drought uplift ($/kL, $2025-26)

	$2024-25 Current 2024-25	$2025-26 2025-26	2026-27	2027-28	2028-29	2029-30
Raw water						
Hunter Water proposal	0.43	0.49	0.55	0.60	0.67	0.72
IPART decision	0.43	0.49	0.55	0.60	0.67	0.72
Drought water usage						
Hunter Water proposal	0.50	0.45	0.45	0.45	0.45	0.45
IPART decision	0.50	0.55	0.55	0.55	0.55	0.55

Note: The change between 2024-25 and 2025-26 includes inflation. Prices between 2026-27 and 2029-30 will be subject to yearly inflation.

Source: Hunter Water 2024 Pricing Proposal and IPART analysis.

We have set the fixed service charge to meet the remainder of the revenue requirement and thus recover efficient costs.

Table 8.3 Water service charge for residential customers ($/year, $2025-26)

	$2024-25 Current 2024-25	$2025-26 2025-26	2026-27	2027-28	2028-29	2029-30
Hunter Water proposal	27.58	43.54	58.85	74.15	89.46	104.76
Annual change (%)		57.9%	35.2%	26.0%	20.6%	17.1%
IPART decision	27.58	32.85	37.47	42.08	46.69	51.30
Annual change (%)		19.1%	14.1%	12.3%	11.0%	9.9%

Note: The change between 2024-25 and 2025-26 includes inflation. Prices between 2026-27 and 2029-30 will be subject to yearly inflation.

Source: Hunter Water 2024 Pricing Proposal and IPART analysis.

Table 8.4 Water service charge for non-residential customers ($/year, $2025-26)

	$2024-25 Current 2024-25	$2025-26 2025-26	2026-27	2027-28	2028-29	2029-30
Hunter Water proposal						
20 mm	27.58	43.54	58.85	74.15	89.46	104.76
25 mm	43.10	68.03	91.95	115.86	139.78	163.69
40 mm	110.33	174.16	235.40	296.60	357.84	419.04
100 mm	689.59	1,088.50	1,471.25	1,853.75	2,236.50	2,619.00
Other sizes	$\frac{(Meter\ size\ in\ mm)^2 \times water\ service\ charge\ for\ a\ 20mm\ Meter\ for\ the\ applicable\ Period}{400}$					
Annual change (%)		57.9%	35.2%	26.0%	20.6%	17.1%
IPART decision						
20 mm	27.58	32.85	37.47	42.08	46.69	51.30
25 mm	43.10	51.33	58.55	65.75	72.95	80.16
40 mm	110.33	131.40	149.88	168.32	186.76	205.20
100 mm	689.59	821.25	936.75	1,052.00	1,167.25	1,282.50
Other sizes	$\frac{(Meter\ size\ in\ mm)^2 \times water\ service\ charge\ for\ a\ 20mm\ Meter\ for\ the\ applicable\ Period}{400}$					
Annual change (%)		19.1%	14.1%	12.3%	11.0%	9.9%

Note: The change between 2024-25 and 2025-26 includes inflation. Prices between 2026-27 and 2029-30 will be subject to yearly inflation.

Source: Hunter Water 2024 Pricing Proposal and IPART analysis.

8.1.2 Wastewater charges

Fixed and variable prices for wastewater are shown below. These prices are in $2025-26, excluding wastewater usage charges which are to be maintained in nominal terms. Excluding the wastewater usage charge, prices from 2026-27 to 2029-30 will be subject to yearly inflation. Hunter Water has applied IPART's pricing principles and considered customer views in setting wastewater charges.

Wastewater charges are set to increase over the determination period.

Table 8.5 Wastewater usage charge ($/kL, $nominal)

	Current 2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Hunter Water proposal	0.77	0.77	0.77	0.77	0.77	0.77
IPART decision	0.77	0.77	0.77	0.77	0.77	0.77

Note: These prices are to be maintained over the 2025 determination period in nominal terms.

As for water prices, the wastewater service charge is set to recover the remaining revenue requirement, and thus recover efficient costs.

Table 8.6 Wastewater charges for residential customers ($/year, 2025-26)

	$2024-25 Current 2024-25	$2025-26 2025-26	2026-27	2027-28	2028-29	2029-30
Hunter Water proposal						
House	789.18	824.81	836.59	848.36	861.40	873.17
Annual change (%)		4.5%	1.4%	1.4%	1.5%	1.4%
Apartment	730.00	787.08	799.84	812.59	826.12	838.87
Annual change (%)		7.8%	1.6%	1.6%	1.7%	1.5%
IPART decision						
House	789.18	816.19	819.33	822.47	826.88	830.03
Annual change (%)		3.4%	0.4%	0.4%	0.5%	0.4%
Apartment	730.00	778.46	782.58	786.7	791.6	795.73
Annual change (%)		6.6%	0.5%	0.5%	0.6%	0.5%

Note: The change between 2024-25 and 2025-26 includes inflation. Prices between 2026-27 and 2029-30 will be subject to yearly inflation. These charges include 2 components; the adjusted wastewater service component based on a 75% discharge factor, and a deemed wastewater discharge component (based on 126 kL for houses and 77 kL for apartments).

Source: Hunter Water 2024 Pricing Proposal and IPART analysis.

Table 8.7 Unadjusted wastewater service charges for non-residential customers ($/year, $2025-26)

	$2024-25 Current 2024-25	$2025-26 2025-26	2026-27	2027-28	2028-29	2029-30
Hunter Water proposal						
20 mm	929.04	970.39	989.45	1,008.51	1,027.57	1,046.63
25 mm	1,451.63	1,516.23	1,546.02	1,575.80	1,605.58	1,635.36
40 mm	3,716.17	3,881.56	3,957.80	4,034.04	4,110.28	4,186.52
100 mm	23,226.07	24,259.75	24,736.25	25,212.75	25,689.25	26,165.75
Other sizes	$\frac{(Meter\ size\ in\ mm)^2 \times wastewater\ service\ charge\ for\ a\ 20mm\ Meter\ for\ the\ applicable\ Period}{400}$					
Annual change (%)		4.5%	2.0%	1.9%	1.9%	1.9%
IPART decision						
20 mm	929.04	958.89	966.44	973.99	981.54	989.10
25 mm	1,451.63	1498.27	1510.06	1521.86	1533.66	1545.47
40 mm	3,716.17	3,835.56	3,865.76	3,895.96	3,926.16	3,956.40
100 mm	23,226.07	23,972.25	24,161.00	24,349.75	24,538.50	24,727.50
Other sizes	$\frac{(Meter\ size\ in\ mm)^2 \times wastewater\ service\ charge\ for\ a\ 20mm\ Meter\ for\ the\ applicable\ Period}{400}$					
Annual change (%)		3.2%	0.8%	0.8%	0.8%	0.8%

Note: The change between 2024-25 and 2025-26 includes inflation. Prices between 2026-27 and 2029-30 will be subject to yearly inflation.

Source: Hunter Water 2024 Pricing Proposal and IPART analysis.

8.1.3 Stormwater charges

Maximum charges for stormwater services are shown below in Table 8.8. Prices are in $2025-26 terms. Prices from 2026-27 to 2029-30 will be subject to yearly inflation. Stormwater charges will increase over the 2025 determination period.

Table 8.8 Decision on stormwater charges ($/year, $2025-26)

	$2024-25 Current 2024-25	$2025-26 2025-26	2026-27	2027-28	2028-29	2029-30
Residential						
House	97.04	112.26	125.15	138.04	150.92	163.81
Apartment	35.91	41.54	46.31	51.08	55.85	60.62
Low impact assessed residential property	35.91	41.54	46.31	51.08	55.85	60.62
Annual charge (%)		15.7%	11.5%	10.3%	9.3%	8.5%
Non-residential						
Small property (up to 1,000m^2)	97.04	112.26	125.15	138.04	150.92	163.81
Medium property (1,001 - 10,000m^2)	316.94	366.64	408.74	450.83	492.93	535.03
Large property (10,001 - 45,000m^2)	2,015.70	2,331.80	2,599.53	2,867.25	3,134.98	3,402.70
Very large property (>45,000m^2)	6,404.36	7,408.69	8,259.32	9,109.95	9,960.57	10,811.20
Non-Residential Property within a Mixed Multi-Premises	35.91	41.54	46.31	51.08	55.85	60.62
Low Impact assessed Non-Residential Property	97.04	112.26	125.15	138.04	150.92	163.81
Annual change (%)		15.7%	11.5%	10.3%	9.3%	8.5%
Vacant land						
Vacant land	97.04	112.26	125.15	138.04	150.92	163.81
Low impact assessed vacant land	35.91	41.54	46.31	51.08	55.85	60.62
Annual change (%)		15.7%	11.5%	10.3%	9.3%	8.5%

Note: The change between 2024-25 and 2025-26 includes inflation. Prices between 2026-27 and 2029-30 will be subject to yearly inflation.

Source: Hunter Water 2024 Pricing Proposal and IPART analysis.

8.1.4 Recycled water charges

Hunter Water considers recycling when assessing options to deliver water and wastewater services. It engaged with its customers regarding recycled water, and found there is support to continue investing where the cost of saving water is not higher than the cost of providing the water (or where the project is fully funded by end-users). Customers did not consider it was a priority for the broader community to subsidise additional higher-cost recycled water schemes.[145]

We accept that Hunter Water has applied IPART's methodology for pricing recycled water. In our 2020 Hunter Water price review, we continued to defer setting a maximum price for recycled water delivered by Hunter Water.[146]

We have decided to continue to defer setting a maximum price for recycled water schemes, continuing our approach from previous determinations.

8.2 Decisions on trade waste and miscellaneous charges

In addition to setting maximum water, wastewater and stormwater prices, we set 2 other types of prices that Hunter Water can charge its customers. These include:

- **Trade waste charges** for commercial and industrial customers.
- **Miscellaneous and ancillary charges** for other monopoly services that Hunter Water provides, such as damaged meter replacements and conveyancing certificates.

This section sets out our considerations of these charges, having regard to the cost of providing the services as required under section 15(1)(a) of the IPART Act.

Both trade waste and miscellaneous and ancillary charges account for a minor part of Hunter Water's total revenue. In 2024-25, revenue from these charges is estimated to be $6.5 million – roughly 1.5% of its notional revenue requirement.

Hunter Water's proposal puts forward various changes to trade waste charges for customers across different catchments. It also proposed a new charge for additional discharge monitoring and management[c] equivalent to $3,072 ($2025-26), applicable to only trade waste customers classified as Moderate and Major risk.[147]

Similarly for miscellaneous and ancillary charges, Hunter Water proposed various increases and decreases across service types. It also proposed introducing 2 new charges and removing 5 existing charges.[148]

We have considered and reviewed Hunter Water's proposal for these prices and have decided to largely accept its proposed prices with minor adjustments. In our assessment we have found that Hunter Water's price changes include both increases and decreases that appear reasonable, and consider that Hunter Water has made reasonable effort to ensure these costs continue to be efficient.

[c] Hunter Water requested to change the name of its originally proposed charge for 'non-compliance discharge testing and management' to a charge for 'additional discharge monitoring and management'.

The full schedule of trade waste, miscellaneous and ancillary charges are provided in Appendix E.2 and E.3.

Dishonoured or declined payment fees

IPART also sets the maximum dishonoured or declined payment fee that Hunter Water may charge in its customer contract.

Hunter Water proposed to significantly reduce this charge, by 79% to $6.66. This reduction is due to lower third-party costs, and efficiency benefits arising from automation. Hunter Water proposes to apply this fee to all dishonoured or declined payments, including those paid for by debit, credit and cheque. Our decision is to accept this proposed charge on the basis of it being reduced and below other businesses' proposals. We have made this decision with consideration of the resulting social impacts, as required under section 15(1)(k) of the IPART Act. We considered the reduced financial pressure for customers experiencing vulnerability, who may have trouble paying their bills, and that may be charged these fees.

JEC submitted that it supported Hunter Water's decision to materially lower dishonoured/declined payments fees. It also recommended that IPART and Hunter Water review the Australian Energy Market Commission's (AEMC's) Draft Determination on limiting fees and charges in the energy sector, to exempt energy consumers on payment plans, in hardship programs, receiving concessions and experiencing family violence from all ancillary fees and charges.[149]

Table 8.9 Decision on maximum declined or dishonoured payment fees ($2025-26)

Miscellaneous charges	Current charge $2024-25	IPART decision $2025-26	Change	Change (%)
Bank Authority – Payment dishonour	32.36	6.66	-25.70	-79.4%

Source: Hunter Water 2024 Pricing Proposal and IPART analysis.

Chapter 9

Impacts of decisions

09

Summary of the impact of our prices

Typical water and wastewater bills will increase by $86 from 1 July 2025, then $53 on average each following year of the 2025 determination period

- Under our decisions, typical household water and wastewater bills will increase by around:
  - $86 (or 6.9%) including inflation from 1 July 2025 in the first year of the 2025 determination period
  - $53 (or 3.8%) on average plus yearly inflation each following year until 30 June 2030.
- Bills will be 3.8% on average lower each year than under Hunter Water's proposed prices, with proposed yearly increases of:
  - $105 or (8.5%) including inflation from 1 July 2025 in the first year of the 2025 determination period
  - $73 or 5.0% on average plus yearly inflation each following year until 30 June 2030.
- Most of the bill increases come from increases in water usage charges
- Household customers who live in a house, receive stormwater services and pay stormwater bills to Hunter Water, will also see the stormwater component of their bill increase by:
  - $15 (or 15.7%) including inflation on 1 July 2025 in the first year of the 2025 determination period
  - $13 (or 9.9%) on average plus inflation each following year until 30 June 2030.
- The pensioner rebate remains effective for keeping most eligible households out of water stress, but other low-income households may still face issues with affordability.

Non-residential customer bills will increase

- Bills for non-residential customers will increase by between:
  - 0.2% and 13.1% including inflation from 1 July 2025 in the first year of the 2025 determination period
  - 2.4% to 8.4% on average plus inflation each following year until 30 June 2030
- These increases will be driven mainly by the increases in the water usage charge.

9.1 Our decisions allow necessary increases to bills

9.1.1 Household customers

In discussing typical household bills, we refer to the combined water and wastewater bills a household of 3 to 4 people living in a house would pay.[a] Some Hunter Water customers (approximately a quarter of customers) also pay stormwater drainage charges to Hunter Water, which means their bills are higher.

We have set prices that will apply from 1 July 2025 to 30 June 2030. These prices are set in $2025-26 terms and will increase each year until the end of the determination period.

In this report, we present bill changes to help customers understand how the prices will impact them.

We present the bills in the first year including inflation which is the amount the typical customer would pay. We also present the change in bills from 2026-27 each year until 2029-30. The prices and bills for these years are in $2025-26 terms and the increases reflect the 'real' changes which exclude yearly inflation the prices are subject to. Customers should expect to pay these prices **plus** yearly inflation in these following years.

Under our maximum prices, typical household bills for water and wastewater services will increase by around:

- $86 (or 6.9%) including inflation from 1 July 2025 in the first year of the 2025 determination period
- $53 (or 3.8%) on average plus yearly inflation each following year until 30 June 2030.

This is lower than the yearly increases under Hunter Water's proposed prices of:

- $105 (or 8.5%) including inflation from 1 July 2025 in the first year of the 2025 determination period
- $73 (or 5.0%) on average plus yearly inflation each following year until 30 June 2030.[b]

The typical household bill will increase from $1,241 in 2024-25 to:

- $1,326 in 2025-26 including inflation, which is $19 (or 1.4%) lower than the $1,346 proposed by Hunter Water in 2025-26
- $1,540 in 2029-30 in the last year of the 2025 determination period, plus inflation, which is $97 (or 5.9%) lower than the $1,636 proposed by Hunter Water in 2029-30.

By the end of the determination period in 2029-30, typical household bills will increase by 16.1% after the first year increase on 1 July 2025 under our prices, as opposed to 21.6% under Hunter Water's proposed prices.

[a] This is based on consumption of 146 kilolitres a year, which is the average amount of water an individually metered house in Hunter Water's area of operations uses.
[b] In $2025-26 terms.

Box 9.1 below shows how these bill impacts have changed since we presented them in our Draft Report.

Box 9.1 How have bill impacts changed since the Draft Report?

In our Draft Report we presented prices and bills in $2024-25 terms. In this box, we present bill impacts in $2024-25 terms to show changes between the draft and final prices.

In our Draft Report, we proposed average yearly typical water and wastewater bill increases of **$48 (or 3.6%), plus** inflation. Under the draft prices, typical household bills would have increased in the first year from $1,241 in 2024-25 to $1,290 in 2025-26, **plus** inflation.

Our final maximum price decisions will lead to average yearly typical water and wastewater bill increases of **$52 (or 3.9%),** plus inflation. Under the final prices, typical household bills will increase in the first year from $1,241 in 2024-25 to $1,295 in 2025-26, plus inflation.

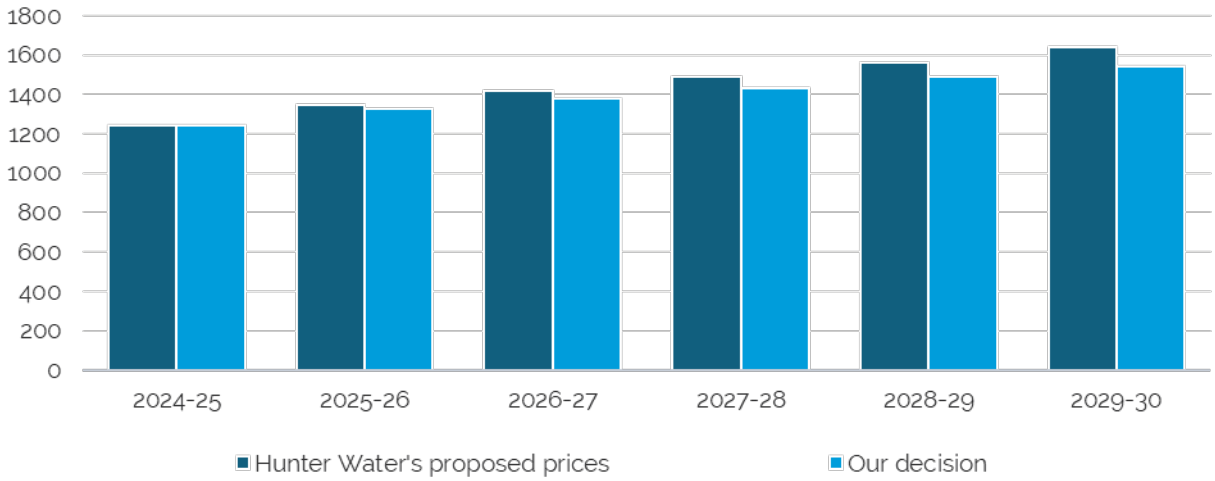
This is lower than the **$71 (or 5.2%)** average yearly increase, plus inflation, proposed by Hunter Water. Under Hunter Water's proposed prices, typical household bills would have increased in the first year from $1,241 in 2024-25 to $1,314 in 2025-26, plus inflation.

Source: IPART analysis

Figure 9.1 compares the current typical household bill and typical household bills under Hunter Water's proposed prices and our decisions. Our decision is to accept Hunter Water's proposal to:

- gradually phase in the increase to prices each year as opposed to increasing prices in one step
- apply more of the increase in prices to usage charge, that is the variable component of the bill.

Figure 9.1 Typical household water and wastewater bills under our maximum prices compared to Hunter Water's proposal[a] ($2025-26)[b]



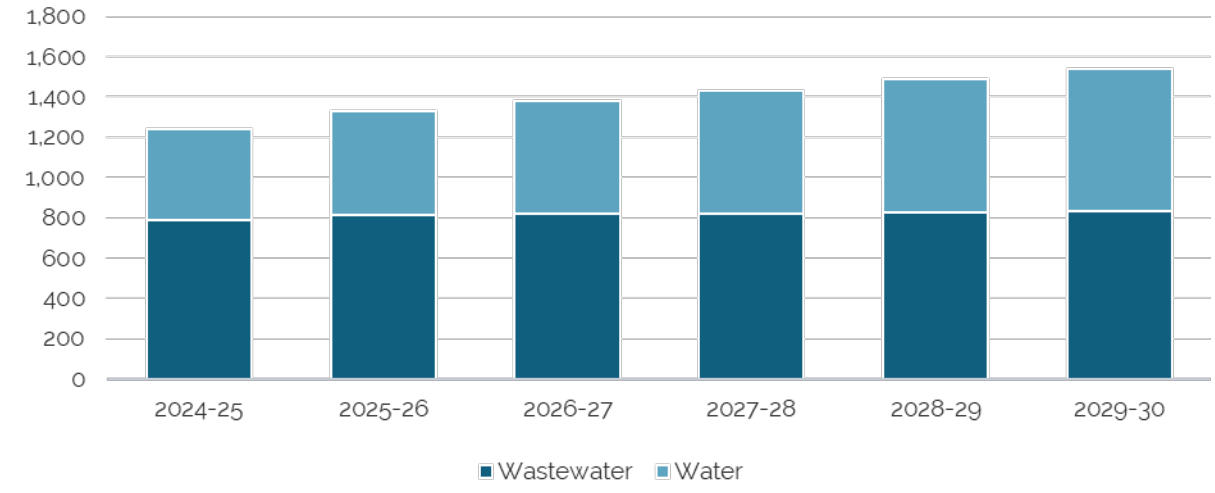
a. Typical household water and wastewater bills are based on a customer living in a house and using 146 kL per year.
b. Bills in 2024-25 reflect current bills in $2024-25 terms; bills from 2025-26 onwards are in $2025-26 terms. Bills from 2026-27 onwards are subject to yearly inflation.

Source: IPART analysis

Figure 9.2 shows the typical household water and wastewater bill will increase under our prices. It shows that yearly increases over the 5 years from 2024-25 to 2029-30 would be:

- $59 (or 13.0%) in the first year from 1 July 2025, including inflation, for water bills, then $50 (or 8.6%) on average each following year, plus inflation
- $27 (or 3.4%) in the first year from 1 July 2025, including inflation, for wastewater bills, then $3 (or 0.4%) on average each following year, plus inflation.

Figure 9.2 Typical bill increases under our maximum prices[a] ($2025-26)[b]



a. Typical household bills are based on a customer living in a house and using 146kL per year.
b. Bills in 2024-25 reflect current bills in $2024-25 terms; bills from 2025-26 onwards are in $2025-26 terms. Bills from 2026-27 onwards are subject to yearly inflation.

Source: IPART analysis.

The bills customers pay to Hunter Water depend on property ownership and metering. If the customer owns a property, they will pay water usage charges as well as wastewater charges. If a customer owns a rental property that is separately metered, the rental property owner may pay the wastewater and service charges while the renter pays the water usage charge.

Table 9.1 presents bill impacts under our prices for a range of households. These bills exclude stormwater charges.

Table 9.1 Bill impacts for residential customer types for water and wastewater ($2025-26)[a]

Customer	Water usage (kL/year)	2024-25 Current	2025-26	2026-27	2027-28	2028-29	2029-30
Owner-occupiers[b]							
Small household - apartment[c]	87	1,011	1,096	1,131	1,167	1,204	1,239
Typical household – house	146	1,241	1,326	1,378	1,432	1,487	1,540
Large household – house	290	1,657	1,797	1,892	1,993	2,092	2,189
Pensioner – house (receives a pensioner rebate)	100	727	766	786	806	827	846
Pensioner – house (without pension rebate)	100	1,108	1,176	1,214	1,254	1,294	1,332
Renters[d]							
Renter - small household or apartment with a separate meter	87	251	284	311	338	365	392
Renter - typical household with a separate meter	146	422	477	521	568	613	658
Renter - large household with a separate meter	290	838	948	1,035	1,128	1,218	1,308
Renter - typical pensioner household with a separate meter (no pensioner rebate)	100	289	327	357	389	420	451
Property-owner – non-occupiers							
Rental property owner that leases a separately metered property[e]	n/a						
House		819	849	857	865	874	881
Apartment		760	811	820	829	838	847

a. 2024-25 bills are presented in $2024-25, bills from 2025-26 onwards are presented in $2025-26. Bills in 2025-26 include inflation, bills from 2026-27 do not include inflation.

b. As modelled by Hunter Water for its 2024 Pricing Proposal, a small household consists of 1 or 2 people living in their own separately metered apartment, a typical household consists of 3 or 4 people living in their own house, a large household consists of 5 or more people living in their own house with a big garden and/or pool, and a pensioner household consists of 1 or 2 people who own their own home and are eligible for the pensioner rebate.

c. If the property is not separately metered (i.e. served by a common meter), these households would pay a usage component based on their unit entitlement (this is a percentage apportionment of total water usage of the building).

d. If the property is separately metered, renters can be charged the water usage charge. If the property is not separately metered, the property owner would also pay a usage component based on their property's unit entitlement (this is a percentage apportionment of total water usage of the building).

e. Based on a rental property owner that leases a separately metered property and can pass on the usage component of the property's bill to the tenant. The rental property owner pays the service charges. If the property is served by a common meter, the rental property owner would pay for a usage component based on the property's unit entitlement (this is a percentage apportionment of total water usage of the building).

Source: IPART analysis.

9.2 Household bills under our maximum prices would vary depending on water usage

9.2.1 Household bill increases for owner-occupiers will increase by 6.9% from 1 July 2025 then 3.8% on average each following year of the 2025 determination period

Typical household water and wastewater bills under our prices will increase by $86 (or 6.9%) including inflation from 1 July 2025 in the first year of the 2025 determination period, then by $53 (or 3.8%) on average plus yearly inflation each following year until 30 June 2030. This is an increase of $213 plus inflation from 2025-26 after the first year price increase to the last year of the 2025 determination period (2029-30).

For other households, with inflation, water and wastewater bills will increase in the first year of the 2025 determination period from 1 July 2025 for:

- small households living in an apartment by $85 (or 8.4%)
- large households living in a house by $141 (or 8.5%)
- pensioner households without a rebate, by $68 (or 6.2%), and with a rebate, by $39 (or 5.4%).

In general, higher water usage charges are the main driver for average yearly bill increases, so higher water usage will lead to generally higher bill increases over the determination period.

After the first year, water and wastewater bills will increase each subsequent year on average, plus inflation, for:

- small households living in an apartment by $36 (or 3.1%)
- large households living in a house by $98 (or 5.1%)
- pensioner households without a rebate, by $39 (or 3.2%), and with a rebate by $20 (or 2.5%)

9.2.2 High water usage charges will increase bills for renters

Renters who are separately metered will experience higher impacts in their bills, largely due to increases in the water usage charge.

With inflation, household water bills for renters will increase by 13.1% in the first year of the 2025 determination period from 1 July 2025, or by:

- $55 for renters of typical houses using 146 kL per year
- $110 for renters of large houses using 290 kL per year
- $33 for renters of apartments using 87 kL per year
- $38 for pensioners households using 100 kL per year.

After the first year, water usage bills for renters will increase each subsequent year by 8.4% on average each year, plus inflation, or by:

- $45 for renters of typical houses using 146 kL
- $90 for renters of large houses using 290 kL
- $27 for renters of apartments using 87 kL
- $31 for pensioners households using 100 kL

Under our maximum prices, water usage bills for renters would increase by 37.9% plus inflation from 2025-26 to 2029-30 after the first year increase on 1 July 2025. This is consistent with Hunter Water's proposal (see Appendix E.4).

The household bills paid by owners of rental properties include the water service charge, wastewater service change and a deemed wastewater usage charge. With inflation, bills paid by separately metered rental property owners will increase in the first year of the 2025 determination period from 1 July 2025 by:

- $30 (or 3.7%) for owners of rental houses
- $52 (or 6.8%) for owners of separately metered rental apartments.

After the first year, bills paid by separately metered rental property owners will remain relatively flat, increasing each subsequent year on average, plus inflation by:

- houses by $8 (or 0.9%)
- apartments by $9 (or 1.1%)

This represents an increase of 3.8% for houses and 4.4% for apartments after the first year increase on 1 July 2025 to the end of the determination period in 2029-30, compared to 12.6% for houses and 13.6% for apartments under Hunter Water's proposed prices (see Appendix E.4).

9.3 Affordability is a concern for customers

Affordability and high inflation were key concerns among stakeholders for this review. This section outlines our assessment and consideration of the social impacts of our decisions, as required under section 15(1)(k) of the IPART Act. We discuss the feedback we heard from stakeholders regarding affordability of prices, and assess the impacts of our pricing decisions on various socio-economic groups.

We received 20 submissions to our Draft Report, of which 11 responded to our consultation question on affordability, including one stakeholder that felt they may soon need government assistance to cope with price increases,[150] and another who expressed concern that price increases will need to be passed on to low-income tenants of rental households they own inhibiting their ability to provide low-income housing.[151]

While the Energy and Water Ombudsman NSW (EWON) and another stakeholder supported the use of financial support to help those most in need, there were concerns about the how well rebates target households that may experience high impacts of bills and the cost transparency of financial support measures.[152]

We had 59 customer respondents to our online survey, of which 54 were owner-occupier household customers. We found most respondents considered keeping prices affordable as one of their 3 most important priorities and were concerned about the impacts on their cost of living or cost of doing business.

We recognise that price increases could have substantial impacts on some customers, including pensioners and low-income groups.

9.3.1 Bills as a proportion of income for different socio-economic groups

Affordability ratios to measure cost-of-living impacts

We have calculated affordability ratios for bills as a proportion of a household's pre-tax income. A systematic review of studies analysing water and wastewater affordability used a threshold between 2 and 5%.[153] We have used a threshold of 3%, as proposed by the UN.[154]

The JEC questioned this methodology in its submission to our Draft Report, suggesting we consider bill impacts in the broader context of cost-of-living.[155] As we have control over water pricing, we believe that assessing the prices we have control over as a proportion of household income is an appropriate measure of the affordability impacts of our prices. Broader cost-of-living have been considered and we have recommended NSW Government consider temporarily increasing and expanding the pensioner rebate, and to explore a utilities rebate.

Our analysis shows that affordability ratios will remain well within the 3% threshold for most households over the period. However, bill increases under our maximum prices will predominantly impact low-income households.

Bills as a proportion of income will worsen for low-income groups

Appendix E.4 shows affordability ratios under our maximum prices for owner-occupier households earning a median income of $108,275[c] will increase between current levels to the end of the determination period in 2029-30 from:

- 1.2% to 1.4% for a typical household
- 1.0% to 1.1% for a median apartment
- 1.6% to 2.0% for a large household (5 or more people who own their own home, live in a house with a big garden and/or pool and have relatively high water use).

For low-income owner-occupier households (earning $52,450[d] per year and below), affordability ratios would increase from at least[e]:

- 2.4% to 2.8% with low water usage (134 kL per year)
- 3.3% to 4.2% for a large household (using high water usage of 290 kL per year).

[c] Median income based on ABS 2021 Census data for NSW median household income and adjusted for wage growth.
[d] Income quartile median incomes based on ABS 2021 Census data reported in profileid NSW Weekly income data and adjusted for wage growth and income quartile usage based on IPART, Residential water usage in Sydney, Hunter and Gosford, 2016, p 43.
[e] Affordability ratios for low-income households are calculated with income levels at top of the lowest quartile range. This means affordability ratios for low-income households are at least as high as presented.

By comparison, for high-income groups earning $185,558 and above, affordability ratios would increase from at most[f]:

- 0.8% to 1.0% with above average water usage water usage of 215 kL per year
- 0.9% to 1.2% for a large household with high water usage (290 kL per year).

Approximately 27% of households in the Hunter Water service area earn incomes within the lowest income quartile (between $0 to $52,450). This is around 62,700 households.[156]

9.3.2 Renter households who are separately metered remain below the 3% threshold

In a submission to our Draft Report, EWON raised concerns that bill increases are higher for tenants of separately metered renter households in percentage terms, and expressed concerns that renter households experiencing vulnerability will not have access to rebate support.[157]

We recognise the concerns raised by EWON and agree that some renter households may be disproportionately impacted by the bill increases. While most bill increases are in the water usage charges, we found that renters who are separately metered and pay the water usage charges will remain below the 3% water stress threshold[g].

As shown in Appendix E.4, under our maximum prices separately metered households that rent and earn median incomes will see affordability ratios increase from:

- 0.2% to 0.4% for apartments
- 0.4% to 0.6% for typical households
- 0.8% to 1.2% for large households by 2029-30.

Typical pensioner households that rent will see water bills increase from to 0.8% to 1.2% of their income for single pensioners and from 0.6% to 0.9% for coupled pensioner households that rent.

Renter households in the lowest income quartile that are separately metered will see their bills increase from at least 0.8% of their income in 2025-26 to 1.3% by 2029-30 with low water usage (134 kL per year) and from at least 1.7% to 2.5% by 2029-30 for low-income renter households with high water usage (290 kL per year).

9.3.3 There may be impacts to affordable housing

We note that our focus on water usage increases on separately metered renter customers does not take into account the long run impact on rental prices for tenants who live in apartments that are not separately metered.

[f] Affordability ratios for high-income households are calculated with income levels at bottom of the highest quartile range. This means affordability ratios for high-income households are at most as high as presented.
[g] Commonly metered properties do not pay for their water usage.

In the long run, it is likely that bill increases will be passed from owners of rental properties that are not separately metered on to their tenants, which may increase cost-of-living pressures for low-income renter households, as indicated by one stakeholder in a submission to our Draft Report, who raised concerns that these price increases will lead to increased rents for low-income tenants the stakeholder provides housing for.[158]

9.3.4 Pensioner rebates provide some financial assistance

We are conscious the proportion of a 200 kL/year bill received as a pensioner rebate to eligible customers has not increased for many years.

The pensioner rebate is available to Pension Concession Card holders and Department of Veteran Affairs Gold Card holders. Eligibility includes customers receiving the aged pension, disability support pension, the carer payment, the parenting payment and JobSeeker recipients who are single with one dependant and looking for work.[159]

Our analysis of pensioner rebates shows that the rebate is currently successful in reducing pensioner bills below the 3% water stress threshold for both single and couple households receiving the aged pension, disability support pension and carer payment. However, by the end of the determination period, single households receiving these pensions (and the pension rebate) will be close to the threshold with affordability ratios reaching 2.8% (see Appendix E.4).

We note that the pensioner rebate is ineffective in reducing affordability ratios to be below 3% for owner-occupier households receiving JobSeeker (single, with dependent child, and looking for work) and eligible for the Pensioner Concession Card.

We also find that other low-income groups that are not eligible for the pensioner rebate may see their bills increase beyond the 3% water stress threshold (see Appendix E.4).

The rebate available to Hunter Water customers is a capped proportion of a bill based on a yearly usage of 200 kL and is significantly lower than the rebate available to pensioners served by Sydney Water. Therefore, we recommend that the NSW Government review pensioner concessions for water and wastewater bills across NSW.

9.3.5 Hunter Water provides other forms of financial assistance

Hunter Water told us it has mechanisms in place to assist customers in financial difficulty and provides payment plans and other assistance schemes. Examples of such measures are:

- extension of financial assistance for residential customers facing financial difficulty via the Payment Assistance Scheme (PAS)
- Easy Pay: making bills more manageable with smaller regular payments (weekly, fortnightly or monthly)
- CentrePay: voluntary regular direct deductions from Centrelink payments.[160]

9.3.6 Improving the effectiveness of rebates

Our analysis on the affordability of bills for different customer groups highlights that some changes could be made to improve how existing rebates deliver bill relief to customers experiencing vulnerability in NSW. Our recommendations to the NSW Government to improve the effectiveness of rebates are summarised below.

Recommendations

1. To improve the effectiveness of rebates, the NSW Government should:
   a. note that water rebates should be targeted to assist those most in need
   b. consider temporarily expanding the eligibility of rebates to households that hold either a Health Care Card or Low Income Health Care Card to the end of the 2025-30 Determination Period
   c. consider temporarily increasing the rebate amount from 27.25% of a typical 200 kL/year bill to:
      - 28.0% in 2025-26 and increasing to 31.6% by 2029-30, if the eligibility criteria remain the same
      - 30.9% in 2025-26 and increasing to 34.1% by 2029-30, if the eligibility criteria are expanded to include Health Care Card and Low Income Health Care Card holders.
   d. Explore the merits of a utilities rebate.

Table E.21 shows the impact to affordability ratios of expanding eligibility of the current rebate to households eligible for Health Care Cards but not eligible for pensioner rebates.

We received two submissions supporting the use of financial support to help those most in need[161], including EWON, who supported our recommendation to increase and expand the rebate.

9.4 Non-residential customers

Non-residential customers' bills depend on several factors, including their water and wastewater usage, which can vary significantly depending on the size and nature of the customer. Bills also depend on meter configuration and trade waste discharge factors, as well as the catchment the customer is served by.

We explored the indicative bill impacts on a number of non-residential business types.[h] We found that on average from 1 July 2025 to 30 June 2030:

- Increases will range between 0.2% to 13.1% including inflation in the first year of the 2025 determination period, and between 2.4% and 8.4% plus inflation for every year after 2025-26 until 1 June 2029, with higher water usage charges leading to higher average yearly changes for non-residential customers with greater water usage.
- Trade waste charges do not have a phased increase and have varied impact (positive or negative) on the overall bill changes due to changes in trade waste charges (See Chapter 8.2)
- Small businesses using 50 kL per year will see bill increases of:
  - 6.1% including inflation in the first year, increasing from $1,694 to $1,798 in 2025-26
  - 2.4% on average, plus inflation, each subsequent year of the determination, increasing to $1,978 in 2029-30 (in $2025-26).
- Medium licensed hotels using 1,200 kL per year will see bill increases of:
  - 8.9% including inflation in the first year, increasing from $6,808 to $7,412 in 2025-26
  - 5.3% on average, plus inflation, each subsequent year of the determination, increasing to $9,110 in 2029-30 (in $2025-26).
- Regional shopping centres using approximately 73,100 kL per year will see increases of:
  - 9.5% including inflation in the first year of the determination period, increasing from $293,576 to $321,551 in 2025-26
  - 6.5% on average, plus inflation, each subsequent year of the determination, increasing to $413,222.
- Medium sized industrial businesses using 73,300 kL per year will see increases of:
  - 10.9% including inflation, in the first year of the determination period, increasing from $264,634 to $293,519 in 2025-26
  - 6.8% on average, plus inflation, each subsequent year of the determination, increasing to $382,340 in 2029-30 (in $2025-26).
- Large industrial businesses with no sewer and using 190,000 kL per year will see an increase of 13.1% including inflation in the first year, then average yearly increases of 8.4% plus inflation, each subsequent year of the determination, while large industrial businesses with sewers and using 243,300 kL per year will see an increase of 11.5% including inflation in the first year, then average increases of 7.3%, plus inflation, each subsequent year of the determination.

[h] This includes impacts of water, wastewater and stormwater prices and where applicable, trade waste prices.

- A shopping centre with high-strength trade waste[i] and using 7,800 kL per year will see an increase of 0.2% including inflation in the first year of the determination, then average increases of 4.9%, plus inflation, each subsequent year of the determination.

Appendix E.4 presents the bill impacts for various non-residential customers.

9.5 Impacts on Hunter Water's financial sustainability

When setting maximum prices, we consider the financial sustainability (financeability) of the business resulting from our pricing decisions. Our financeability assessments considers the impact of our pricing decisions on Hunter Water's borrowing, capital and dividend requirements, as required under section 15(1)(g) of the IPART Act. To do this, we undertake a financeability test to assess how our price decisions are likely to affect the business's financial sustainability and ability to raise funds to manage its activities, over the upcoming regulatory period.

We assessed Hunter Water's financeability over the 2025 determination period by analysing its forecast financial performance, financial position, and cash flows for both the benchmark and actual business. We then forecast financial ratios for both tests and assessed Hunter Water's financial ratios compared to our target ratios (see Appendix E.4).

We did not identify a financeability concern for Hunter Water that needs to be addressed in this review. It is our view that it can remain financially sustainable and continue to provide sustainable services over the 2025 determination period. Hunter Water considered it should be able to manage higher risk.

9.5.1 Implication for general inflation

This section considers the impact of our pricing decisions on general price inflation, as required under section 15(1)(d) of the IPART Act.

The Australian Bureau of Statistics (ABS) does not collect data on Hunter Water's water and wastewater prices. The national consumer price index (CPI) is based only on capital city prices, hence the change in Hunter Water's prices are unlikely to have a measurable effect on the national CPI. To assess the contribution of Hunter Water's bills on inflation, we have assumed in previous determinations that within its area of operations, changes in Hunter Water's prices have a similar effect on inflation as that of changes to Sydney Water's prices in Sydney. Currently, water and wastewater prices contribute 0.59% towards Sydney's CPI (All groups, Sydney)[162]. This does not include Sydney Water's prices for the 2025 determination period.

Based on this contribution, we estimate that the average annual increase for the typical household bill would not have a material impact on inflation in the Lower Hunter Region.[j]

[i] Based on modelling for a shopping centre with BOD treatment in Farley.
[j] The average annual increase in bills for the typical household would contribute 2.3 basis points to inflation.

Chapter 10

Performance and accountability

10

Summary of our decisions on performance and accountability

Accept Hunter Water's revised performance outcomes, measures and targets

Our decision is to accept the revised list of performance outcomes and measures proposed by Hunter Water in its response to our Draft Report.

Apply the Efficiency Benefits Sharing Scheme, the Capital Efficiency Sharing Scheme and one leakage Outcome Delivery Incentive to Hunter Water

We have made a decision to accept Hunter Water's proposed application of the Efficiency Benefits Sharing Scheme (EBSS) and the Capital Efficiency Sharing Scheme (CESS) with no expenditure carve-outs. We have also accepted Hunter Water's proposed leakage reduction Outcome Delivery Incentive (ODI), including its baseline and target figures, noting the strong support from the Community Panel to address leakage outcomes.

Apply a 1% cap on revenue adjustments across the 3 incentive schemes

Our decision is to accept the proposed 1% cap on the revenue adjustment across the Efficiency Benefits Sharing Scheme, the Capital Efficiency Sharing Scheme and the Outcome Delivery Incentive over the upcoming determination period. We consider that the 1% cap on revenue adjustments provides a reasonable balance of risk and incentives across the 3 incentive schemes.

10.1 Outcomes and performance measures

Under our water regulation framework, we expect businesses to develop performance outcomes related to customer, community and the environment. There is no set limit on how many outcomes a business must develop. For each outcome, we expect businesses to develop suitable performance measures and demonstrate a clear link between these outcomes and performance measures. This would include how the business' activities and expenditure are linked to outcomes. Pursuant to section 15(1)(a) and 15(1)(l) of the IPART Act, our assessment of Hunter Water's outcome and performance measures is one way that we consider Hunter Water's standards of quality, reliability and safety, and how these compare with the costs we allow for in Hunter Water's expenditure envelope.

Hunter Water initially proposed 6 customer outcomes and 10 performance measures.[163] In our Draft Report, we recommended areas where Hunter Water could expand its performance reporting and, in its response to our Draft Report, Hunter Water accepted these recommendations and proposed an additional 3 performance measures. It also clarified some performance targets that were previously not finalised in its initial pricing proposal. These are shown in Table 10.1 below.

Hunter Water also consulted with its customers on their preferred communication channels for performance reporting. Based on this, it proposed reporting on its performance on a "*customer report card*" which would be made available on various communication channels.

Table 10.1 Hunter Water's proposed performance outcomes and measures

Performance outcome	Performance measure	Performance target
High quality water services	% compliance with Australian Drinking Water Guidelines	Target: from 99.95% to ≥99.75% by 2030 Trend: **No change (maintain current level)**
	% of service delivery issues raised by customers addressed within target timeframes	Target: ≥88% Trend: **No change (maintain current level)**
	Number of customers removed from repeat service issue register (low pressure, odour and wastewater overflow issues)	Target: from 40/yr to ≥1000/yr by 2030 Trend: **Improvement**
	Operating Licence service standards met for water continuity, water pressure, dry weather wastewater overflows and repeat dry weather wastewater overflows	Target: Maintain 4/4 (100%) Trend: **No change (maintain current level)**
Value for money, affordable	% of survey respondents that agree Hunter Water delivers value for money (via survey)	Target: from 51% to ≥50% by 2030 Trend: **No change (maintain current level)**
	% of customers who are accessing, or have accessed, support programs that agree the program is effective (via survey)	Target: ≥70% Trend: **No change (maintain current level)**
Water security	Average daily volume of leakage and overflow from supply mains and service reservoirs	Target: from 83 L/connection/day to ≤ 40 L/connection/day by 2030 Trend: **Improvement**
	Key milestones met in the delivery of the Belmont desalination plant by 2028	Target: First water by June 2028 and complete plant in 2028-29 Trend: n/a
Environmentally sustainable	% of Beachwatch sites graded as good, or grading unaffected by Hunter Water's activities	Target: Maintain 100% Trend: **No change (maintain current level)**
	% reduction in carbon dioxide equivalent emissions compared to a 2020-21 baseline	Target: from 30% to ≥80% by 2030 Trend: **Improvement**
	Number of major environmental incidents	Target: from 2 to ≤ 3 Trend: **No change (maintain current level)**
Great customer service	% of customers satisfied with their most recent interaction with Hunter Water (via survey)	Target: ≥70% Trend: **No change (maintain current level)**
Community-focused	% of survey respondents that agree they trust Hunter Water (via survey)	Target: ≥75% Trend: **No change (maintain current level)**

Source: Hunter Water 2024 Pricing Proposal, p 72 and Hunter Water submission to IPART Draft Report, p 27.

10.1.1 Hunter Water's proposed outcomes and measures are driven by customer engagement

It is important that a business' performance outcomes and measures are developed through robust customer consultation to ensure that customer values and priorities are reflected in proposed indicators. Involving customers to set the priorities and outcomes that matter most is essential if water businesses are to identify better ways of delivering services.

We have found that Hunter Water's performance outcomes and measures were developed through strong community consultation and an understanding of key customer priorities. Hunter Water consulted on customer expectations to develop its performance outcomes, and sought feedback on the measures that would help customers understand what they pay for. It also sought feedback from its Community Panel and Customer and Community Advisory Group on the additional measures and targets proposed in its response to our Draft Report.

In some areas where customers indicated a strong preference for improved outcomes, Hunter Water set more ambitious targets to improve customer value – including for instance via its targets to reduce leakages and to address repeat service issues in hotspot areas.

Overall, we consider that Hunter Water's engagement on performance outcomes and measures was genuine and enabled customer influence on key priorities.

Box 10.1 Hunter Water's services

Hunter Water provides services to residential and non-residential customers in the Lower Hunter region, including Newcastle.

Hunter Water provides water, wastewater and stormwater services:

- Its water services include to source, treat, and store water, and deliver water to customers. Hunter Water has around 285,000 water customers.
- Its wastewater services include to collect wastewater from customers, treat it, reuse or discharge treated wastewater, and dispose of biosolids. Hunter Water also accepts liquid trade waste from commercial customers. It has around 260,000 wastewater customers.
- Its stormwater services include maintaining stormwater channels, which is part of the larger stormwater system managed by local councils. Hunter Water has around 70,000 stormwater customers.

Note: Capital assets: 1. Belmont desalination plant, 2. Grahamstown water treatment plant upgrade, 3. Burwood Beach wastewater treatment plant upgrade, 4. Chichester Trunk Gravity Main Replacement.

10.1.2 Hunter Water's revised list of outcomes and targets

We assessed Hunter Water's proposed performance outcomes and measures using the criteria set out in our Water Regulation Handbook. We found that some of Hunter Water's proposed performance targets were highly ambitious and directly driven by customer priorities – for example, those that address repeat service delivery issues and reduce carbon dioxide equivalent emissions.

Our Draft Report also identified some areas where there were insufficient measures to give customers a holistic picture of Hunter Water's performance. We also asked Hunter Water to clarify some targets that were not finalised in its pricing proposal and sought further detail on measurement methods for certain outcomes.

Hunter Water's response to our Draft Report details its response to these issues and accepts reporting on some additional metrics to improve transparency for customers. In response to our recommendation, Hunter Water proposed reporting on the following additional measures:

- Operating Licence service standards met for water continuity, water pressure, dry weather wastewater overflows and repeat dry weather wastewater overflows (using a composite index approach)
- key milestones met in the delivery of the Belmont desalination plant by 2028
- number of major environmental incidents.[164]

It also proposed including the following as supplementary/contextual statistics in the customer report card:

- percentage of customers on hardship programs
- percentage of customers returning to support program within 1 year
- percentage of customers that do not pay by the final notice.

We consider that Hunter Water's performance outcomes, measures and targets (as detailed in Table 10.1) is well-balanced and would provide customers with sufficient transparency into how it is delivering on key customer outcomes, while maintaining reporting that is accessible and clear for customers to engage with. Our decision is to accept Hunter Water's revised performance outcomes, measures and targets. Pursuant to section 15(1)(b) of the IPART Act, we consider these would provide a reputational incentive for Hunter Water to maintain a high standard of service, which, by extension, would help to protect consumers from the abuses of monopoly powers.

Further improvements to reporting could be considered at the next price review

The Justice and Equity Centre (JEC) expressed broad support for Hunter Water's proposed outcome measures and our recommended additions. It outlined areas for improvement in reporting, and expressed that performance targets and reporting should be considered as an 'iterative' process and an area of constant evolution.[165] We agree with JEC's perspective and encourage Hunter Water to consider the JEC's feedback on its performance reporting at the next price review, together with feedback from its customers and learnings from the reporting process in this price review.

Further details on Hunter Water's revised performance outcomes, including a mock-up customer report card, are available in Hunter Water's submission to our Draft Report.

Our decision is:

22. To accept Hunter Water's revised list of performance outcomes, measures and targets.

10.2 Financial incentive schemes

Our water regulation framework includes 3 financial incentive schemes to reward businesses for improvements on their past performance: the Outcome Delivery Incentives (ODIs) Scheme, the Expenditure Benefits Sharing Scheme (EBSS), and the Capital Expenditure Sharing Scheme (CESS).

Incentive schemes reward businesses that outperform their forecasts for operating expenditure, capital expenditure, and/or service delivery, encouraging businesses to continuously improve customer value over the medium to long term.

More information about the ODI scheme, EBSS and CESS are available in our Water Regulation Handbook.[166]

10.2.1 Hunter Water proposed one ODI for leakage

The ODI scheme ties financial rewards and penalties to the delivery of key outcomes that promote customer value. Each business will propose customer outcomes, and specific measures for each outcome that will promote customer value. For a particular outcome measure, if the business can establish the customer value for an increase (or decrease) in performance, we will allow the business to retain 20% of the value it has delivered to customers from a change in performance.

Hunter Water set a baseline leakage that reduces from 16.4 ML/day to 10.6 ML/day over the 2025 determination period. It states this has been set consistent with the forecast expenditure contained in its pricing proposal to meet that baseline.

To calculate the customer value from leakage performance, Hunter Water proposes:

- the value of leaked water is the usage price (based on the Long Run Marginal Cost of water supply), and
- the financing benefit or cost will be calculated using the prevailing Short Run Marginal Cost of water.[167]

Table 10.2 below summarises Hunter Water's proposed leakage ODI baseline and targets.

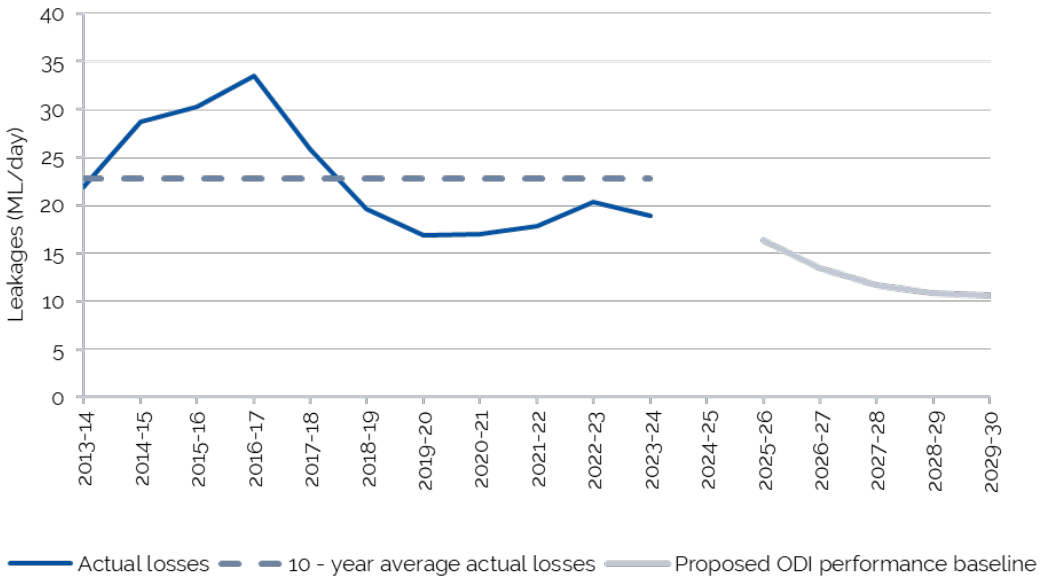
Table 10.2 Hunter Water's proposed leakage reduction ODI

Performance measure	Units	Current performance	2025-26	2026-27	2027-28	2028-29	2029-30
Leakage outcome target	Litres per connection per day	83	≤65	≤55	≤45	≤45	≤40
Leakage performance baseline	ML/day	22.8	16.4	13.5	11.7	10.9	10.6

Note: The leakage targets shown above are different to those presented in Hunter Water's pricing proposal. These figures have been updated by Hunter Water to account for a previous calculation error.

This leakage baseline is shown relative to Hunter Water's historical leakage performance in Figure 10.1 below.

Figure 10.1 Hunter Water's historical and forecast leakages performance



Source: IPART analysis using data from Hunter Water.

Hunter Water's leakage targets require investment beyond the Economic Level of Water Conservation

One of the key recommendations made by Hunter Water's customers on the Lower Hunter Water Security Plan was to conserve more water by fixing leakages on properties and across the network. Based on this, Hunter Water developed ambitious leakage targets that required investment beyond the Economic Level of Water Conservation (see Box 10.2 below for further information).

In preparing its proposal, Hunter Water retested these targets with customers, to which the Community Panel supported some additional expenditure on leakage reduction beyond the Economic Level of Water Conservation. The Community Panel was made aware of the cost/benefit trade-offs of investing above the Economic Level of Water Conservation. However, the Community Panel explained its comfort in exceeding this level was to 'secure resources for future generations'.[168]

Based on this engagement Hunter Water proposed $20 million in capital expenditure to reduce leakages[169], of which approximately $10.8 million represents 'improvement' expenditure beyond the Economic Level of Water Conservation.

Box 10.2 Economic Level of Water Conservation method

Hunter Water has an obligation to apply an 'Economic Level of Water Conservation' method to assess leakage projects (and other water conservation strategies) under its operating licence regulated by IPART.

Under the Economic Level of Water Conservation methodology, all water conservation measures with a levelised cost less than or equal to the value of water are considered economically viable. The volume of water that could be saved if Hunter Water implemented all these measures is the Economic Level of Water Conservation.

Source: IPART analysis.

Hunter Water's leakage ODI meets the criteria set out in our Water Regulation Handbook

Our Water Regulation Handbook sets out principles that businesses should apply when developing their ODIs. We have assessed Hunter Water's ODI against these principles and found that:

- **The leakage outcome is measurable, influenced by expenditure and creates customer value:**
  - While there are some inherent uncertainties in leakage calculations (noting that leakage is fundamentally a water balance calculation), overall, it is readily measurable and is a suitable outcome for an ODI.
  - The proposed targets are supported by a step change in expenditure, which has strong support from Hunter Water's Community Panel.
  - This expenditure delivers improved customer value. While the targets require investment beyond the Economic Level of Water Conservation, this investment is supported by customer willingness to pay.

- **The baseline level for the outcome is well-justified.** It is calculated using an established leakage calculation methodology under the urban water utilities National Performance Reporting framework, and is based on the leakage reduction expenditure included in Hunter Water's proposal.
- **The method to estimate customer value is reasonable**. Customer value is based on the usage price of drinking water as a proxy for the economic value of water.
- **The ODI is succinct and does not overlap.** Since Hunter Water has proposed only one ODI, there are no overlaps with other performance-based incentives.

Based on our assessment above we consider that Hunter Water's leakage ODI proposal meets the criteria set out in our Water Regulation Handbook and is well supported by customer priorities and willingness to pay. Our decision is to accept Hunter Water's proposed leakage ODI, baseline and targets.

10.2.2 Hunter Water proposed participating in the EBSS and CESS

The Operating Efficiency Benefit Sharing Scheme (EBSS) and the Capital Efficiency Sharing Scheme (CESS) provide financial incentives to businesses to achieve cost savings over the medium to long term and establish a mechanism for these savings to be shared with customers.

Hunter Water has proposed participating in both the EBSS and CESS. It stated that in the spirit of a working trial, it is not proposing any up-front exclusions or carve-outs additional to those considered through IPART's financial incentive schemes working group.[170] It noted some reservations about the schemes, and queried whether deviations in actual expenditure from a pre-determined level necessarily reflect efficiency gains or losses for the purpose of the CESS.[171]

Our application of the EBSS and CESS would consider the nature of any under- or over-spends

In its response to our Draft Report, Hunter Water expressed concern that the ambitiousness of its expenditure proposal (and in particular, the measured risks it took by deliberately excluding known but uncertain costs) may require it to spend above its allowance in the 2025 determination period in response to emerging risks/costs from regulatory changes. These include:

- $25 million in treatment operations costs[a]
- Impacts of PFAS on drinking water standards and biosolids management.

It asked IPART to apply 'discretion and judgement' when applying the CESS and EBSS to these costs at the next price review.[172]

[a] These costs were estimated by Hunter Water in December 2024 following completion of tendering for its treatment operations contract. Hunter Water did not include these costs in its initial proposal, but later asked IPART to consider them in setting prices. In Chapter 4, we discuss our decision to not include these costs in Hunter Water's expenditure allowance.

We note that our Water Regulation Handbook outlines our intended approach to calculating the EBSS and CESS penalty or reward payments where there have been large, uncertain costs incurred but not included in a business' expenditure allowance. Our Water Regulation Handbook states that in this instance, we would intend to assess the efficiency of the actual step changes in costs before calculating the EBSS and CESS based on our 'revised' operating and capital expenditure allowance.[173] It would remain open to a future Tribunal to apply this approach in its consideration of specific under or over-spends in expenditure at the next price review.

We consider that the proposed CESS and EBSS application is reasonable

We consider that Hunter Water's proposal to apply the CESS and EBSS is reflective of a reasonable balance of risk between customers and an Advanced water business. Our decision is to apply the CESS and EBSS to Hunter Water, as per its proposal with no explicit exclusions. Under our decision, the EBSS and CESS would apply to the total operating and capital expenditures from Chapters 4 and 5.

Our decision is:

23. To apply the EBSS, CESS and ODI incentive schemes to Hunter Water as per its proposal over the 2025 determination period.

10.2.3 Hunter Water proposed a 1% cap on the revenue adjustment across ODI, EBSS and CESS

Our Water Regulation Handbook asks businesses to propose a revenue adjustment cap to apply across the 3 incentive schemes. We noted that the default limit for the combined incentive adjustments would be 1% of the revenue requirement over the determination period, but allowed businesses to propose different cap levels to this. In determining the cap, we noted that we would take into account specific circumstances of the businesses and the anticipated risks involved with implementation of the incentive schemes. [174]

Hunter Water proposed the default revenue adjustment cap of 1%[b] apply across the ODI, EBSS and CESS[175].

Noting that Hunter Water has not proposed any explicit expenditure carve-outs for the EBSS and CESS, and has set ambitious leakage reduction targets for its ODI, we consider that the 1% cap on revenue adjustments provides a reasonable balance of risk and incentives across the 3 incentive schemes. Our decision is to accept the proposed 1% cap on the revenue adjustment across the ODI, EBSS and CESS over the upcoming determination period.

[b] Of revenue requirement over the determination period.

Our decision is:

24. To apply a 1% cap on the revenue adjustment across the ODI, EBSS and CESS over the 2025 determination period.

10.3 Monitoring and credibility

After setting revenues, performance targets and incentives, we monitor ongoing performance through a range of tools to make sure businesses deliver on their commitments to customers. Specifically, we track business performance in terms of customer outcomes and expenditure. We also collaborate with other NSW regulators so that businesses promote customers' long-term interests by responding to all regulatory requirements efficiently.

10.3.1 Monitoring compliance with pricing determinations

IPART has an ongoing role in monitoring the performance of certain specified businesses for the purposes of establishing and reporting to the Minister on the level of compliance by the business with an IPART pricing determination.[176] This ongoing role provides another layer of monitoring and accountability for Hunter Water to comply with its pricing determination.

10.3.2 Monitoring outcome performance

Hunter Water is expected to notify customers of its progress

As part of our water regulation framework, we expect businesses to publish annual updates on their progress against outcome commitments. The aim of annual progress updates is to maximise accessibility and visibility for customers.

Hunter Water proposed reporting its performance on a "*customer report card*" which would be made available via:

- Hunter Water's website
- e-newsletters
- social media
- annually along with water bills.[177]

It also proposed establishing an ongoing Community Committee, of which one function would be to recommend performance ratings for each outcome on the Hunter Water report card.[178]

Performance results in an online dashboard

IPART also monitors performance to ensure businesses maintain a customer focus, improve their services and deliver on outcome commitments included in their proposals. Publishing progress on these commitments increases public visibility and leverages reputational incentives for businesses to deliver on their promises.

We will publish a user-friendly online performance dashboard that tracks businesses' progress against their outcome commitment. Public access to this information promotes greater accountability and allows businesses and customers to compare performance outcomes across different water businesses.

The online dashboard will be designed to be easily accessible to all interested stakeholders. It will contain current and past information for all price-regulated businesses on:

- the grades that businesses received for current and past pricing proposals
- customer-informed outcome commitment targets and progress against achieving those targets in the current and past determination period, with 'traffic lights' to signal progress
- trends for operating and capital expenditure, including deeper level information on several standardised cost categories.

The dashboard will be accessible via our website once it has been established. We expect the dashboard to be published once performance data from 2025-26 becomes available.

10.3.3 Annual licence audits

IPART has a role in auditing Hunter Water's compliance with the requirements of its operating licence. As part of this auditing function, we collect annual performance information provided by the businesses on measures relating to water quality, system continuity and reliability, environmental performance and customer service.

Our annual operating licence audit reports are provided to the Minister for Water and are published on our website for public access.

The information collected through these audits may be published on our online dashboard to ensure transparency and improve public confidence. This provides additional incentives for businesses to perform to its expectations and continually identify areas for improvement.

Appendices

Appendix A

Matters considered by IPART

This appendix explains how we considered certain matters we are required to consider under the *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act).

A.1 Matters under section 13(1) of the IPART Act

For this review, the NSW Premier required us to consider:

a. the cost-of-living impacts of the price determinations

b. the effectiveness of existing rebates to manage the social impacts of the price determinations, including if the program will adequately support customers who may be disproportionately impacted by any price increase

c. opportunities to adjust project timelines within the price determination period and over the next ten years to minimise price impacts and, if necessary, to reduce the proposed capital programs in line with least cost planning principles, and

d. deliverability of the proposed capital plans based on capability and market conditions.

Table A.1 IPART consideration of section 13(1) matters

Section 13(1)		Report reference
a.	The cost-of-living impacts of the price determinations	Chapter 9 sets out the potential impact of our pricing decision on Hunter Water's customers.
b.	The effectiveness of existing rebates to manage the social impacts of the price determinations, including if the program will adequately support customers who may be disproportionately impacted by any price increase	Chapter 9 considers at a high level the current arrangements for existing rebates and whether they would be effective in delivering bill relief to customers experiencing financial vulnerability.
c.	Opportunities to adjust project timelines within the price determination period and over the next ten years to minimise price impacts and, if necessary, to reduce the proposed capital programs in line with least cost planning principles.	Chapter 5 sets out the efficient capital expenditure for Hunter Water, including our considerations of capital phasing.
d.	Deliverability of the proposed capital plans based on capability and market conditions.	Chapter 5 sets out our assessment of Hunter Water's capital plans.

The letter from the Premier of NSW to the Chair of IPART is provided below.

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The Hon Chris Minns MP
Premier of New South Wales

NSW GOVERNMENT

Ref: A6131815

Ms Carmel Donnelly PSM
Chair
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop 1240

Re: Section 13 requirements for Sydney Water and Hunter Water and price determinations

Dear Ms Donnelly,

I write regarding the upcoming price determinations for Sydney Water Corporation and Hunter Water Corporation that will commence in September 2024.

The Government understands that Sydney Water and Hunter Water will lodge their submissions shortly, which may propose increases to their customers' bills. NSW households are currently experiencing increasing cost of living pressures, including rising housing and utility expenses. These cumulative price increases may disproportionately impact vulnerable communities.

To help address these pressures, pursuant to section 13(1)(c) of the *Independent Pricing and Regulatory Tribunal Act 1992* (**IPART Act**), I require IPART to consider the following matters:

- the cost-of-living impacts of the price determinations
- the effectiveness of existing rebates to manage the social impacts of the price determinations, including if the program will adequately support customers who may be disproportionately impacted by any price increase
- opportunities to adjust project timelines within the price determination period and over the next ten years to minimise price impacts and, if necessary, to reduce the proposed capital programs in line with least cost planning principles, and
- deliverability of the proposed capital plans based on capability and market conditions.

These directions will maintain IPART's independence, while ensuring that the NSW Government is afforded the information required to consider the impacts of IPART's draft determination.

Sincerely,

[redacted]

Chris Minns MP
Premier of New South Wales

30/8/24

52 Martin Place Sydney NSW 2000
GPO Box 5341 Sydney NSW 2001

02 7225 6000
nsw.gov.au/premier

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A.2 Matters under section 14A(2) of the IPART Act

Where the Tribunal uses a methodology to fix prices, section 14A(3) of the IPART Act requires us to report on what regard we have had to the matters listed in section 14A(2). These matters are:

a. the government agency's economic cost of production

b. past, current or future expenditures in relation to the government monopoly service

c. charges for other monopoly services provided by the government agency

d. economic parameters, such as—

   i discount rates, or

   ii movements in a general price index (such as the Consumer Price Index), whether past or forecast

e. a rate of return on the assets of the government agency

f. a valuation of the assets of the government agency

g. the need to maintain ecologically sustainable development (within the meaning of section 6 of the *Protection of the Environment Administration Act 1991*) by appropriate pricing policies that take account of all the feasible options available to protect the environment

h. the need to promote competition in the supply of the service concerned

i. considerations of demand management (including levels of demand) and least cost planning.

Table A.2 IPART consideration of section 14A(2) matters

Section 14A(2)	Report reference
a. The government agency's economic cost of production.	In Chapters 4 and 5 we discuss our analysis and decisions on Hunter Water's operating and capital expenditure. We assess proposed economic costs with reference to current and past levels of expenditure, and with careful consideration of the likely customer outcomes and service standards that would be delivered. We consider how costs have and would be incurred to provide water, wastewater and stormwater services, and discuss our decisions on the levels of expenditure that we consider appropriate to be recovered through Hunter Water's maximum prices.
b. Past, current or future expenditures in relation to the government monopoly service.	In Chapters 4 and 5 we discuss our analysis and decisions on Hunter Water's operating and capital expenditure. We assess proposed economic costs with reference to current and past levels of expenditure, and with careful consideration of the likely customer outcomes and service standards that would be delivered. We consider how costs have and would be incurred to provide water, wastewater and stormwater services, and discuss our decisions on the levels of expenditure that we consider appropriate to be recovered through Hunter Water's maximum prices.
c. Charges for other monopoly services provided by the government agency.	In Appendix D we set out our decisions on Hunter Water's prices for other monopoly services, including miscellaneous and ancillary charges. In reaching a decision on these charges we considered the efficient costs incurred by Hunter Water in providing these services.
d. Economic parameters, such as— • discount rates, or	In Chapter 6 we discuss our decisions and approach to indexing Hunter Water's regulatory asset base to account for inflation. Chapters 7 and 8 set out how we have set prices to raise revenue

Section 14A(2)		Report reference
	• movements in a general price index (such as the Consumer Price Index), whether past or forecast.	that recovers efficient costs over the determination period in net present value terms.
e.	A rate of return on the assets of the government agency.	In Chapter 6 we explain our approach to setting the weighted average cost of capital (WACC) which is the benchmark rate of return we use in setting maximum prices. In setting the WACC, we estimate a rate of return that would be earned by a firm operating in a competitive market and facing similar risks to the regulated business. We calculate a benchmark cost of debt and cost of equity to ensure that the WACC allowance Hunter Water receives incentivises its shareholders to invest efficiently. The full calculation of the WACC is provided in Appendix D.
f.	A valuation of the assets of the government agency.	In Chapter 6 we discuss our decisions and approach towards calculating Hunter Water's regulatory asset base (RAB). Our decisions consider the need to earn an efficient return on Hunter Water's RAB (through the WACC) and the annual regulatory depreciation value of that asset base.
g.	The need to maintain ecologically sustainable development (within the meaning of section 6 of the Protection of the *Environment Administration Act 1991*) by appropriate pricing policies that take account of all the feasible options available to protect the environment.	In Chapters 4 and 5 we set out Hunter Water's efficient expenditure that allows it to meet its known regulatory requirements and environmental obligations. In particular, our decisions on step changes in operating expenditure allow an efficient funding envelope for Hunter Water to meet changing environmental regulations and support the provision of ecologically sustainable development and operations.
h.	The need to promote competition in the supply of the service concerned.	In Chapter 8 we set out our efficient prices which reflect the maximum that Hunter Water would need to charge if it were operating in a competitive environment. We consider that our decisions, and the maximum prices, would result in customers only paying what Hunter Water requires to efficiently deliver quality water services. In Chapter 6, we discuss our decisions on Hunter Water's allowances for tax, regulatory depreciation, return on assets, and other price building blocks. Our decisions on these building blocks consider what costs a benchmark firm operating in a competitive market environment would incur in providing its services.
i.	Considerations of demand management (including levels of demand) and least cost planning.	In Chapter 7 we explain our assessment of, and decisions on, forecast water demand, specifically: • the number of customers we expect would receive water services in each year of the 2025 determination period (forecast connections) • the volume of water we expect a water business would provide in each of those years (forecast water sales volumes). Our decisions on water demand and forecast sales volumes are used in determining Hunter Water's charges over the 2025 determination period.

A.3 Matters under section 15(1) of the IPART Act

IPART is required under section 15(1) of the IPART Act to have regard to the following matters in making determinations and recommendations:

a. the cost of providing the services concerned

b. the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services

c. the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales

d. the effect on general price inflation over the medium term

e. the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers

f. the need to maintain ecologically sustainable development (within the meaning of section 6 of the Protection of the *Environmental Administration Act 1991*) by appropriate pricing policies that take account of all the feasible options available to protect the environment

g. the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets

h. the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body

i. the need to promote competition in the supply of services concerned

j. considerations of demand management (including levels of demand) and least cost planning

k. the social impact of the determinations and recommendations

l. standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).

Table A.3 IPART consideration of section 15(1) matters

Section 15(1)	Report reference
a) Cost of providing the services.	In Chapters 4 and 5 we discuss our analysis and decisions on Hunter Water's operating and capital expenditure. We assess proposed economic costs with reference to current and past levels of expenditure, and with careful consideration of the likely customer outcomes and service standards that would be delivered. We consider how costs have and would be incurred to provide water, wastewater and stormwater services, and discuss our decisions on the levels of expenditure that we consider appropriate to be recovered through Hunter Water's maximum prices.
b) Protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services.	Our role in setting maximum prices ensures that customers are protected from abuses of monopoly powers through unjustifiably high prices. When setting maximum prices, we ensure that Hunter Water recovers only the efficient costs of providing its services, and that those services are delivered to an appropriate standard of quality, reliability and safety. Our considerations of efficient costs are discussed in Chapters 4, 5 and 6, while Chapter 7 discusses our consideration of price structures by which the maximum prices would be charged to customers.
c) Appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales.	In Chapter 6 we explain our approach to setting the weighted average cost of capital (WACC) which is the benchmark rate of return we use in setting maximum prices. In setting the WACC, we estimate a rate of return that would be earned by a firm operating in a competitive market and facing similar risks to the regulated business. We calculate a benchmark cost of debt and cost of equity to ensure that the WACC allowance Hunter Water receives incentivises its shareholders to invest and distribute dividends efficiently. The full calculation of the WACC is provided in Appendix D.

Section 15(1)	Report reference
d) Effect on general price inflation over the medium term.	In Chapter 9 we assess the impact of our decisions on general inflation. To calculate this impact, we assumed that Hunter Water's water, wastewater and stormwater prices contribute 0.59% towards general inflation in the Lower Hunter Region, consistent with the ABS data for Sydney Water's contribution to Sydney's CPI. Using this contribution, we determined that the price increases under our decisions would not have a material impact on general inflation in the Lower Hunter.
e) Need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers.	In Chapters 4 and 5 we discuss our analysis and decisions on Hunter Water's efficient level of operating and capital expenditure. To inform our decisions, we engaged independent experts, HoustonKemp, to provide advice on the efficiency of Hunter Water's expenditure. We make decisions on ongoing cost efficiency targets for Hunter Water's operating and capital expenditure which we consider are ambitious but achievable, and promote the need for greater efficiency in line with the productivity frontier.
f) The need to maintain ecologically sustainable development (within the meaning of section 6 of the *Protection of the Environment Administration Act 1991*) by appropriate pricing policies that take account of all the feasible options available to protect the environment.	Chapters 4 and 5 set out Hunter Water's efficient expenditure that allows it to meet its known regulatory requirements and environmental obligations. In particular, our decisions on step changes in operating expenditure allow an efficient funding envelope for Hunter Water to meet changing environmental regulations and support the provision of ecologically sustainable development and operations..
g) The impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets.	In Chapter 6 we explain our approach to setting the weighted average cost of capital (WACC) which is the benchmark rate of return we use in setting maximum prices. In setting the WACC, we estimate a rate of return that would be earned by a firm operating in a competitive market and facing similar risks to the regulated business. We calculate a benchmark cost of debt and cost of equity to ensure that the WACC allowance Hunter Water receives incentivises its shareholders to invest and distribute dividends efficiently. The full calculation of the WACC is provided in Appendix D. In Chapter 9 we assess the impacts of our decisions on Hunter Water's financial sustainability, including its ability to finance ongoing interest on its debt.
h) The impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body.	In Chapter 4 we discuss our decisions on the operating expenditure allowance for Hunter Water, including on the efficient costs of operational contracts that Hunter Water has entered into over the next period.
i) The need to promote competition in the supply of the services concerned.	We have set efficient prices which reflect the maximum that Hunter Water would need to charge if it were operating in a competitive environment. We consider that our decisions, and the maximum prices, would result in customers only paying what Hunter Water requires to efficiently deliver quality water services. In Chapter 6, we discuss our decisions on Hunter Water's allowances for tax, regulatory depreciation, return on assets, and other price building blocks. Our decisions on these building blocks consider what costs a benchmark firm operating in a competitive market environment would incur in providing its services.
j) Considerations of demand management (including levels of demand) and least cost planning.	In Chapter 7, we explain our assessment of, and decisions on, forecast water demand, specifically: • the number of customers we expect would receive water services in each year of the 2025 determination period (forecast connections) • the volume of water we expect a water business would provide in each of those years (forecast water sales volumes). Our decisions on water demand and forecast sales volumes are used in determining Hunter Water's charges over the 2025 determination period.

Section 15(1)	Report reference
k) The social impact of the determinations and recommendations.	In Chapter 7 we discuss our decisions on price structures to apply in the 2025 determination period, with consideration to likely resulting social impacts. In particular, we considered that phased-in price increases would limit sudden bill impacts for customers, and greater weighting towards usage prices rather than the service charges would enable customers to have greater control over their total bills. In Chapter 9 we step through our assessment and consideration of the social impacts of our pricing decisions. We discuss the feedback we heard from stakeholders regarding affordability of prices, and assess the impacts of our pricing decisions on various socio-economic groups. We extend this analysis to customer groups receiving rebates, and make recommendations to the NSW Government on how the existing rebate program could be temporarily expanded to deliver bill relief to customers experiencing vulnerability.
l) Standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).	Chapters 4 and 5 set out our decisions on Hunter Water's efficient expenditure that allows it deliver upon its standards of quality, reliability and safety. In particular, we consider how major capital projects, including the Belmont desalination plant, deliver on improved water security for customers and improve standards of reliability in extreme drought scenarios. We further consider Hunter Water's current performance and targets of quality, reliability and safety in Chapter 10. We make decisions on the performance outcomes, measures and targets that Hunter Water should publicly report against over the 2025 determination period. We consider these would provide a reputational incentive for Hunter Water to maintain a high standard of service.

A.4 Considerations under section 16 of the IPART Act

Under section 16 of the IPART Act, we must report on the likely impact on the Consolidated Fund if prices are not increased to the maximum levels permitted. If this is the case, then the level of tax equivalent and dividends paid to the Consolidated Fund would fall. The extent of this fall would depend on Treasury's application of its financial distribution policy and how the change affects after-tax profit.

Our financial modelling is based on a tax rate of 30% for pre-tax profit and dividend payments at 70% of after-tax profit. A $1 decrease in pre-tax profit would result in a loss of revenue to the Consolidated Fund of 49 cents in total, which is 70% of the decrease in after-tax profit of 70 cents.

Appendix B

Water regulation framework grading rubric

Table B.1 Guidance for customer principles

1. Customer centricity

How well have you integrated customers' needs and preferences into the planning and delivery of services, over the near and long term?

Standard Expectations	**Advanced** Additional expectations to Standard	**Leading** Additional expectations to Advanced
Develop customer engagement strategy		
• The business has a published customer engagement strategy which: – sets out how it seeks to understand what matters to customers, and identifies the outcomes that maximise long-term customer benefit at an efficient cost – considers the level of influence customers have in how services are delivered – identifies the role of customer engagement in understanding customer preferences – commits to engage with customers in the pricing proposal and for major investments. • The strategy should be well structured and easy for customers to follow, and articulate clear roles and responsibilities of customers, regulator(s) and business.	• The strategy demonstrates that customers have a high level of influence in how services are delivered, and commits to gain insights from customers through a variety of methods.	• The strategy empowers customers to co-develop the most material aspects of its pricing proposal that impact price and service.
Customers influence business outcomes		
• Customer insights and engagement influence customer outcomes, inform business decisions, and short, medium and long-term plans.	• Customer insights are linked to customer outcomes, which inform ongoing improvements in the way services are delivered to customers.	
Processes support customer centricity		
• Systems in place to respond to ongoing customer feedback. • Consumer facing businesses propose assistance programs for customers experiencing vulnerability (e.g. hardship programs, payment plans, access to concessions or other)	• Learns from and keeps up with peers and industry best practice engagement methods. • Consumer facing businesses propose tools or processes to support early identification and interventions for customers experiencing a range of vulnerability circumstances.	• Clear evidence of continual improvement in customer value across the business where it reflects on, and incorporates, learnings from its engagement processes. • Consumer facing businesses propose simplifications to assist customers, including those experiencing vulnerability, improve accessibility and understanding (e.g. customer contracts, bills and accounts and water literacy).

2. Customer engagement

Are you engaging customers on what's most important to them, making it easy for customers to engage by using a range of approaches to add value?

Standard Expectations	**Advanced** Additional expectations to Standard	**Leading** Additional expectations to Advanced
Engage on what matters to customers		
• Select issues for engagement that matter to customers.	• Customers involved in setting priorities that matter most for deeper engagement.	• Collaborates with and empowers customers (and/or customer representatives) to develop solutions in customers' long-term interests.
Choose appropriate engagement methods		
• Suitable consultation method/s have been chosen to reach a representative customer base and/or their advocates, such as renters, home-owners, vulnerable groups, and businesses. • Opportunities for 2-way communication with customers exist. • Scope of engagement proportional to the level of expenditure and the impact of the project.	• Chooses effective methods to provide all customers – including more difficult-to-reach customers – with a high level of influence in how services are delivered. Responses are then triangulated and tested against other information.	• Continuously seeks to improve methods of engagement and explore innovative methods.
Engage effectively		
• Unbiased, clear explanation of context and objectives. • Participants are informed of the impact of their feedback. • Engagement is easy to understand, and customers' understanding is tested and where relevant, technical literacy/capacity is supported for effective engagement. • Culturally and linguistically diverse groups are supported in their engagement. • Information is accurate, objective, tells the whole story and is correctly targeted to its audience. • Clear explanations of investment options, service levels, and uncertainties.	• Engagement includes clear explanation of options (including price differences and any potential trade-offs), and participants are confident their feedback will influence outcomes.	

3. Customer outcomes

How well does your pricing proposal link customer preferences to proposed outcomes, service levels and projects?

Standard Expectations	**Advanced** Additional expectations to Standard	**Leading** Additional expectations to Advanced
Customers drive outcomes		
• Propose outcomes, based on customer engagement, that capture what customers want you to deliver. • Link proposed expenditure to these outcomes.	• Outcomes are concise, specific, measurable and written from customer's perspective. They are clearly aligned to customer preferences and proposed expenditure.	• Outcomes and supporting output measures and targets are co-designed with customers, and proposals are supported by customers.
Performance measures support outcomes		
• Propose performance measures for each outcome. • Propose performance targets for each measure, referencing IPART's principles, with: – internally consistent short-, medium- and long-term targets – targets justified based on past performance and other suitable industry benchmarks – targets that, at a minimum, meet customer protection operating licence standards and other regulatory requirements.	• Targets show a step change improvement to customer value and include adequate protections for individual customers.	• Where supported by customer willingness to pay, service targets exceed past performance and other suitable industry benchmarks by an ambitious but realistic margin.
Accountability for customer outcomes		
• Clear mechanisms ensure the business is accountable for delivering outcomes.	• All outcomes include steps the business will take if not meeting targets, and where appropriate, are supported by outcome delivery incentive (ODI) payments/penalties.	• All important customer outcomes with high customer value would typically be supported by ODI payment/penalty rates and targets.

4. Community

Are you engaging with and considering the broader community to understand their objectives, including traditional custodians of the land and water, while ensuring services are cost-reflective and affordable today and in the future?

Standard Expectations	**Advanced** Additional expectations to Standard	**Leading** Additional expectations to Advanced
Identify community outcomes		
• Engage with, and consider the broader community, including Aboriginal and Torres Strait Islander peoples, to identify community outcomes. • Assess the benefits and costs to the customer of delivering on broader community values, as they relate to the provision of regulated services. • Consider costs/benefits and bill impacts before proposing expenditures.	• Outcomes have demonstrated customer value and support, with awareness of bill impacts.	• Demonstrate step change improvements in community outcomes, which prioritise customer preferences revealed through engagement.
Community outcome performance measures		
• Community outcomes have targets that are measurable, have intermediate steps and milestones built in (as needed).	• Work and partner with local groups and other stakeholders to propose and deliver community outcomes within the scope of its services.	• Demonstrate innovative approaches to promote customer and community value.
Accountability for community outcomes		
• Clear mechanisms ensure the business is accountable for delivering community outcomes.	• Mechanisms include steps the business will take if not meeting targets.	

5. Environment

Have you identified and met broader environmental objectives, while ensuring services are cost reflective and affordable today and in the future?

Standard Expectations	**Advanced** Additional expectations to Standard	**Leading** Additional expectations to Advanced
Identify environmental outcomes		
• Meet all regulatory requirements, including environmental requirements, at an efficient cost. • Follow government directions[a] and regulatory obligations. • Set environmental outcomes that relate to the provision of regulated services, consistent with customer preferences, community views and waterway quality guidelines. • Consider long-term environmental costs/benefits and bill impacts before proposing expenditures. • Propose cost-efficient expenditure to manage and adapt to the impacts of climate change.	• Actively engage with other regulators, evaluate prospective government directions and obligations from the perspective of promoting the customer's long-term interests. • Incorporate climate change into forecasting models and undertake climate change adaptation and mitigation actions.	• Demonstrate step change improvements in environmental outcomes, revealed through engagement, which prioritise delivery of environmental outcomes that customers and the community value most.
Environmental outcome performance measures		
• Environmental outcomes have targets that are measurable, have intermediate steps and milestones built in (as needed).	• Work and partner with community groups, other businesses, stakeholders and government, to propose and deliver outcomes that meet regulatory requirements, promote customer value and provide environmental benefits.	• Demonstrate innovative approaches which promote customer value and maximise environmental benefits.
Accountability for environmental outcomes		
• Clear mechanisms ensure the business is accountable for delivering environmental outcomes.	• Mechanisms include steps the business will take if not meeting targets.	

[a] Government directions are typically made by Ministerial order through the *State Owned Corporations Act 1989* (the SOC Act) or other power under legislation

6. Choice of services

Are you providing opportunities to reflect customers' varied preferences for the tariffs and additional services they are willing to pay for?

Standard Expectations	**Advanced** Additional expectations to Standard	**Leading** Additional expectations to Advanced
Consider differentiated service offerings		
• No requirements at Standard.	• Engage with customers on opportunities for differentiated service offerings, including standard add-on mass market tariff options (e.g. carbon offsets), where it is cost efficient to do so. • Work with government and developers in growth planning to offer additional services and supply options to new developments.	• Offer customers innovative tariffs and products above licence obligations, consistent with customers' preferences if there is evidence of customer demand.

Table B.2 Cost principles

7. Robust costs

How well does your proposal provide quantitative evidence that you will deliver the outcomes preferred by customers at the lowest sustainable cost?

Standard Expectations	**Advanced** Additional expectations to Standard	**Leading** Additional expectations to Advanced
Justify proposed expenditure		
• Proposed operating expenditure (opex) is consistent with past expenditure and clearly explains any step changes or trends. • Proposed capital expenditure (capex): – is clearly explained – identifies baselines for recurrent expenditure and provides justification for any changes it proposes over time – for large capital projects with a clear scope is supported by cost-benefit analysis considering alternative options.	• Changes in expenditure are supported by quantitative evidence which demonstrates how it promotes customer value (e.g., in proposing step changes for opex, and justification in business cases for large capital projects).	• Proposes opex and capex that maximises customer value, supported by modelling which shows it is below industry benchmarks.
Optimise between opex and capex		
• Demonstrates consideration has been given to opex and capex trade-offs.	• Uses quantitative evidence to show that proposed opex and capex minimises net life-cycle costs.	• Takes into account the potential and likelihood for cost saving innovations when proposing a balance of opex and capex.
Accountability for expenditure outcomes		
• Expenditure performance targets have been identified that maintain compliance with licence conditions, other regulatory requirements, and are consistent with customer preferences.	• Demonstrates how performance targets have been developed through customer engagement and deliver customer value.	• Has adopted and implemented robust processes to ensure that forecasts are justified, evidence-based and deliverable.

8. Balance risk and long-term performance

How well do you weigh up the benefits and risks to customers of investment decisions, and how consistent are they with delivering long-term asset and service performance?

Standard Expectations	**Advanced** Additional expectations to Standard	**Leading** Additional expectations to Advanced
Understand long-term performance		
• Investment and asset management decisions demonstrate a balancing of the risks and benefits to the customer and business in terms of long-term asset and service performance.		• Provides additional evidence optimising this balance of risks, using best practice, probabilistic investment decision and asset management systems.
Manage risks and reprioritise		
• Demonstrates all cost drivers and has mechanisms to monitor cost risks and reprioritise expenditures and asset management strategies as necessary. • Outlines its approach to manage long-term risks, including climate change	• Proposal commits to accept more risk where it has benefits for customers. • Demonstrates it has organisational resilience to absorb cost impacts arising from changes in the operating environment.	• Proposal includes capability and strategies to optimise and manage the value of risk factored into its forecasts and proposals.

9. Commitment to improve value

How much ambition do you show in your cost efficiency targets and what steps have you taken to demonstrate commitment to deliver on your promises?

Standard Expectations	**Advanced** Additional expectations to Standard	**Leading** Additional expectations to Advanced
Develop cost efficiency strategy		
• The business has a management[b] approved and externally published cost efficiency strategy that includes: – an annual 'efficiency factor' across opex and capex – productivity improvements achieved and proposed, which highlight that the business is adopting innovations – how it has performed against current period targets.	• Proposal is informed by cost efficiency strategy, justifies an ambitious annual expenditure 'efficiency factor' and explains reasons for its current performance.	• Proposes efficiency targets which would lead to a significant step change in cost efficiencies below historical costs and industry cost benchmarks.
Accountability for cost efficiency outcomes		
• Has clear mechanisms to ensure the business is accountable for achieving its proposed cost efficiency outcomes.		

[b] Depending on the organisation structure this approval may be Board, Council or executive leadership approval.

10. Equitable and efficient cost recovery

Are your proposed tariffs efficient and equitable, and do they appropriately share risks between the business and your customers?

Standard Expectations	**Advanced** Additional expectations to Standard	**Leading** Additional expectations to Advanced
Propose cost-reflective prices • Propose cost-reflective maximum prices for customers, with: – modelling to justify tariffs over the next determination period – a balance of fixed and usage charges that takes into account the long run marginal cost (LRMC) of providing services.	• Provides modelling to show that proposed prices: – are sustainable over time, and would avoid large future bill impacts – have been informed by LRMC model estimates – consider the impact of climate change on the level and structure of prices addressed • Justifies the appropriate form of price control that promotes the long-term interests of customers.	• Provides comprehensive modelling to support its proposed recovery of costs, including: – catchment level LRMC estimates where appropriate (to justify demand and supply side responses to delay augmentations or prioritise investments) – longer-term pricing paths supported by long-term cost estimates.
Justify within-period revenue adjustments • Provides a robust justification for any revenue adjustments, consistent with IPART's revenue hierarchy principles.		

Table B.3 Credibility principles

Credibility	Requirements (all levels)
11. Delivering Can you provide assurance that you have the capability and commitment to deliver?	• Proposed expenditures and service outcomes can be delivered in the timeframe proposed. • Sets out how progress against key investments and performance targets (both short- and long-term) will be regularly monitored and communicated to its customers. • Plans for foreseeable future challenges, including strategies for how it will reprioritise and adapt as changes arise. • The proposal has been approved by the Board (or equivalent), who endorse that the proposal would best promote the long-term interests of its customers. The proposal has evidence of a robust assurance process to ensure the veracity of information provided to IPART.
12. Continual improvement Does the proposal identify shortcomings and areas for future improvement?	• Justified self-assessment • Performance targets have been monitored and communicated to customers over the previous period, consistent with past regulatory proposals. You have justified and explained past performance to customers. • Demonstrates how experience and lessons from past determination period/s have been integrated into current and future/long-term strategies, where gaps remain, and how future plans will address these. • Identifies any shortcomings in its proposals including its plans to address any shortfalls.

Appendix C

Assessment of Hunter Water's customer engagement

C.1 We reviewed Hunter Water's customer engagement

Under our water regulation framework, we assess each water business's customer engagement and the extent to which its engagement has informed customer-focused pricing proposals. We do not prescribe a method by which a business should engage with its customers. We do, however, expect that a business demonstrates how it would engage with its customers in a meaningful way to understand its customers' needs and preferences, and that these insights are used to inform its proposal.

In undertaking our assessment, we applied the grading rubric in our Water Regulation Handbook for customer engagement which requires a water business to demonstrate how it:

- engaged on what matters
- chose appropriate engagement methods
- engaged effectively.

We also referred to the IAP2 Public Participation Spectrum[a] to understand the levels of influence customers may have in an engagement process. We recognise that different levels of participation are legitimate depending on goals, time frames, resources and levels of understanding and concern in the decision to be made. We also recognise the time and resources needed to prepare and inform participants influences their participation in the engagement and influence on decisions.

C.1.1 Hunter Water undertook a comprehensive multi-stage engagement program

Hunter Water undertook an extensive customer engagement program comprising 5 stages between July 2022 and August 2024. Its engagement on its pricing proposal covered 3 main areas:

- customer outcomes, outcome measures and accountability mechanisms
- what customers are willing to pay for on top of baseline bill increases and how customers want Hunter Water to make decisions on topics of importance
- price structures including how price increases should be applied.

The 5 engagement stages were:

1. Validating draft outcomes, understanding topics of interest and customer appetite for participation in decision making.
2. Understanding customer priorities on specific topics of interest including a willingness to pay.
3. Deliberating key topics with a Community Panel via a deliberative forum seeking their recommendations.

[a] The IAP2 Public Participation Spectrum is designed to assist with the selection of the level of participation that defines the public's role in a community engagement program. The levels of participation are based on the impact the public could have on decision making. From low to high levels of impact the levels include; 'inform', 'consult', 'involve', 'collaborate' and 'empower' (see IAP2 Public Participation Spectrum, 2018).

4. Confirming customer outcomes, developing outcome measures and identifying accountability mechanisms. During this stage, Hunter Water additionally consulted on price structures in response to customer feedback.
5. Closing the loop where Hunter Water explained to the Community Panel how it has incorporated the customer feedback into its proposal.

Hunter Water used a variety of methods and sought input from almost 9,000 stakeholders including customers, community members, internal and external stakeholders, and experts.

C.1.2 Hunter Water demonstrated an Advanced level of customer engagement

Our analysis found that through a comprehensive multi-stage engagement program, Hunter Water demonstrated the customer engagement principle at an Advanced level.

Hunter Water involved its customers in setting priorities

Hunter Water's engagement for its pricing proposal builds on previous engagement and interaction with customers, and a strong understanding of customer preferences. Its engagement on key topics for additional investment focused on what it considered customers could have the greatest influence on, priority areas for decision making for the business and where there could be material bill impacts.

In Stages 1 and 2 of Hunter Water's customer engagement, it consulted on these topics through quarterly surveys, focus groups, a bill simulator survey, and a priorities survey. This involved understanding the relative importance of topics compared to customer preferences for keeping bills affordable, preferences on the level of investment per topic and willingness to pay, as well as interest in participating in decision-making. This engagement then informed key topics for Hunter Water to collaborate with the community on. In Stage 3, it held a deliberative forum where a Community Panel discussed these topics (hot spots, carbon reduction and water conservation) and made recommendations to Hunter Water.

Hunter Water chose a range of methods to consult with its customers

Through a mix of quantitative and qualitative engagement methods including surveys, workshops, focus groups, interviews and a deliberative forum, Hunter Water provided genuine opportunities for customers to influence its proposal on areas that mattered to them.

Quarterly surveys allowed Hunter Water to reach of broad range of customers throughout the engagement program and these were tailored to consult on different subjects in line with engagement stages. Focus groups and workshops enabled targeted consultation with different customer groups including difficult-to-reach customers. For example, a bill simulator survey was used to explore willingness to pay across its broad customer base which was then further explored through a focus group.

Where it was difficult to reach a specific group such as young people and renters, Hunter Water took steps to address gaps in representation. To ensure voices of young people were reflected in deliberative discussions Hunter Water told us it targeted a guest youth speaker to address its Community Panel. It had members of the panel attend a special youth event to then present insights to the rest of the panel.

Hunter Water engaged effectively

We consider that Hunter Water has demonstrated effective engagement at an Advanced level. Our review of engagement materials finds that overall, the information Hunter Water provided to customers was clear, accessible, and targeted. To address bias, it worked with engagement experts to develop engagement materials and had its engagement experts facilitate direct engagement. Hunter Water also worked with its Customer Engagement Advisory Panel (CEAP) and external stakeholders on the design of its deliberative forum and to ensure engagement materials were accessible. Its engagement process has also been quality assured.[b]

Across engagement stages, Hunter Water provided a clear explanation of options to meet outcomes and bill impacts. This has included providing relevant background, explaining the pricing proposal process, IPART's price setting and the benefits and costs associated with topic areas. We note that it explicitly described the context of 'unavoidable increases' in bills that customers could not influence over engagement. These were associated with investment decisions already made (such as the Belmont desalination plant), essential expenditure required to meet regulatory drivers, the cost of borrowing, and interest rates. It made clear to customers that they were consulting on additional increases in bills.

Hunter Water gave confidence to participants that their feedback influenced outcomes. In Stage 5, Hunter Water held a 'close the loop session', explaining to its Community Panel how its feedback had been incorporated in the pricing proposal.

Box C.1 Engagement on the delivery of the Belmont desalination plant

The Belmont desalination plant is a major project that represents around a third of Hunter Water's capital expenditure. Hunter Water did not consult explicitly on the Belmont desalination plant as part of its engagement plan for its pricing proposal. However, there had been other avenues for customers to have their say on the project.

Hunter Water explained that it had undertaken consultation on the plant as part of engagement on the Lower Hunter Water Security Plan. The Belmont desalination plant had been approved by the NSW Government as part of this plan in 2022. Rather than offer levels of influence at a 'consult' level or above, it had 'informed' customers about the delivery of the plant.

[b] See CEAP attestation that the engagement process has been thorough fair and transparent, and conducted in good faith, resulting in valid customer views being incorporated into Hunter Water's proposal in Hunter Water 2024 Pricing Proposal to IPART, p 54.

Appendix D

Weighted average cost of capital

To calculate an allowance for the return on assets in the revenue requirement, we multiply the value of the regulatory asset base (RAB) in each year of the determination period by an appropriate rate of return. We determine the rate of return using a weighted average cost of capital (WACC).

This appendix shows the parameters we used to calculate the WACC and explains our decision about how to treat annual changes in the WACC over the determination period.

D.1 We use our standard approach to calculate the WACC

We used our standard 2018 WACC methodology to calculate the WACC. Under this approach we estimate one WACC based on current market data and one based on long-term average data. When our uncertainty index, which indicates the level of volatility in capital markets, is within one standard deviation of its mean value, we select the mid-point of the current and long-term WACC values. The uncertainty index was within this range at the time we calculated the WACC.

Table D.1 sets out the parameters we used to derive Hunter Water's 3.3% post tax real WACC.

Table D.1 WACC calculation using IPART's standard approach

	Step 1 - Market data Market data		Step 2 – Final WACC range		
	Current	**Long term**	**Lower**	**Mid-point**	**Upper**
Nominal risk-free rate	3.2%	2.7%			
Inflation	2.6%	2.6%			
Implied debt margin	2.1%	2.3%			
Market risk premium	6.3%	6.0%			
Debt funding	60%	60%			
Equity funding	40%	40%			
Total funding (debt + equity)	100%	100%			
Gamma	0.25	0.25			
Corporate tax rate	30%	30%			
Effective tax rate for equity	30%	30%			
Effective tax rate for debt	30%	30%			
Equity beta	0.70	0.70			
Cost of equity (nominal post-tax)	7.6%	6.9%			
Cost of equity (real-post tax)	4.9%	4.2%			
Cost of debt (nominal pre-tax)	5.3%	5.0%			
Cost of debt (real pre-tax)	2.6%	2.3%			
Nominal vanilla (post-tax nominal) WACC	6.2%	5.8%	5.8%	6.0%	6.2%
Post-tax real WACC	3.5%	3.1%	3.1%	**3.3%**	3.5%
Pre-tax nominal WACC	7.1%	6.6%	6.6%	6.8%	7.1%
Pre-tax real WACC point estimate	4.4%	3.9%	3.9%	4.1%	4.4%

a. This is the WACC we use for our final prices in this report.
Source: IPART analysis.

D.2 Our methodology to calculate WACC parameters

This section sets out some of the key methodologies we use to derive the component parameters used to calculate the WACC under our standard approach.

D.2.1 Gearing and beta

In selecting proxy industries, we consider the type of business the firm is in. If we can't directly identify proxy firms that are in the same business, then we would consider which other industries exhibit returns that are comparably sensitive to market returns.

We adopted the standard values of 60% gearing and an equity beta of 0.7. We undertook preliminary proxy company analysis on several different types of industries with risk profiles that appear similar to water businesses. Our analysis supported continuing to use an equity beta of 0.7 when 60% gearing is used.

D.2.2 Sampling dates for market observations

For the Final Report, we applied a sampling period up to the end of March 2025. This uses more up to date market observations compared to our Draft Report, which applied a sampling period up to the end of December 2024.

For earlier years in the trailing average calculation of the historic cost of debt, we sampled to the end of March in each year.

D.2.3 Tax rate

We assumed the Benchmark Equivalent Entity is a large public water utility. The scale economies that are important to firms of this type suggest that the Benchmark Equivalent Entity would be likely to be well above the turnover threshold at which a firm becomes ineligible for a reduced corporate income tax rate. Therefore, we used a tax rate of 30%.

D.2.4 Regulatory period

We applied the WACC estimate for the duration of the determination period.

D.2.5 Application of trailing average method

Our 2018 review of the WACC method introduced a decision to estimate both the long-term and current cost of debt using a trailing average approach, which updates the cost of debt annually over the regulatory period.

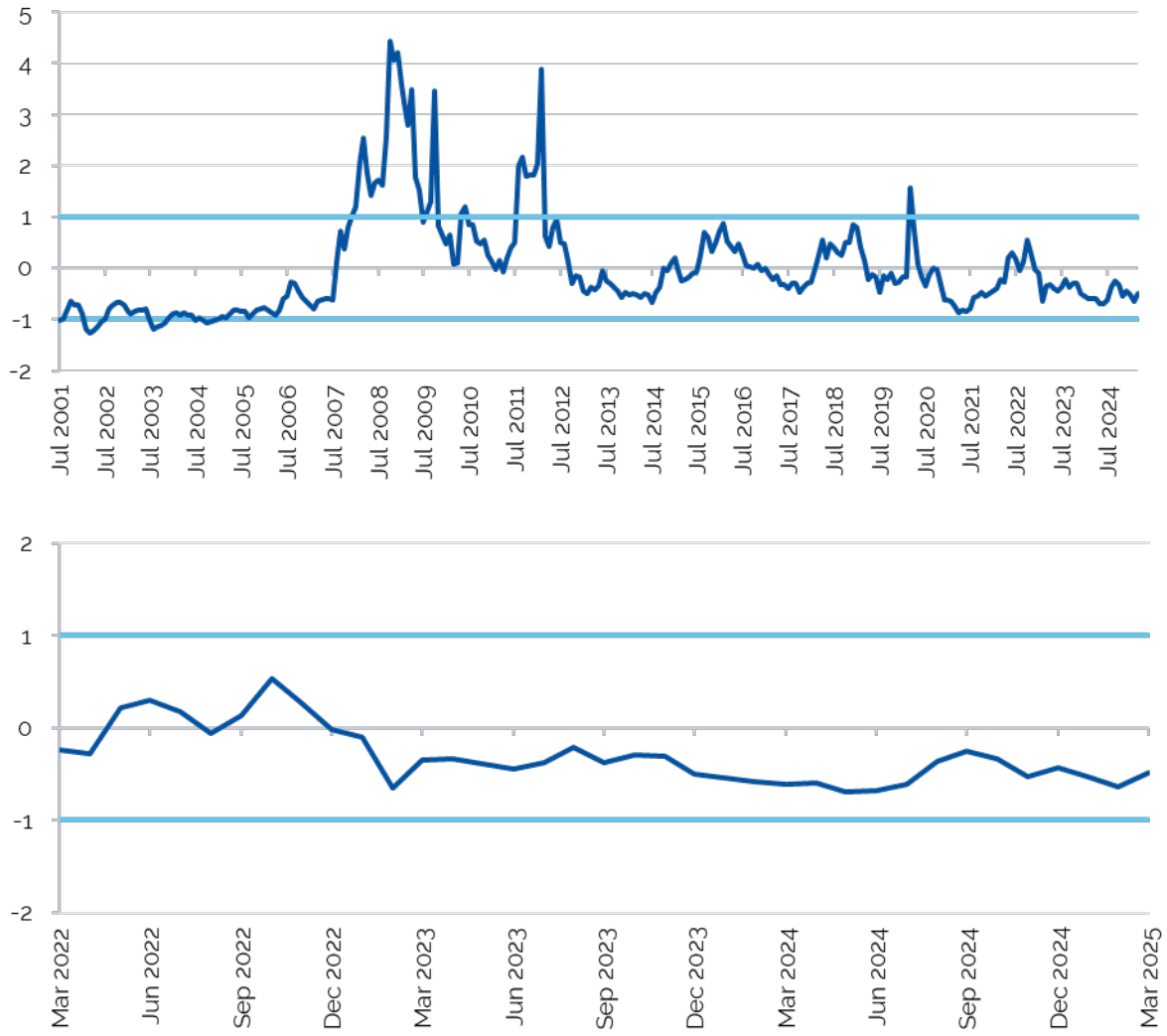
We have not applied a transition to the trailing average in our WACC calculation for this Report. The transition to the trailing average was applied in Hunter Water's 2020 Determination, so we consider that the businesses is now fully transitioned to the trailing average approach.

D.2.6 Uncertainty index

Under current IPART's WACC method, we estimate one WACC using current market data and one using long-term average data. When our uncertainty index — which indicates the level of volatility in capital markets — is within one standard deviation of its mean value, we select the mid-point of the current and long-term WACC values.

As Figure D.1 shows, the uncertainty index for market observations to the end of March 2025 is within one standard deviation of its mean value. Therefore, we have set the WACC based on the mid-point of the current and long-term WACC values.

Figure D.1 IPART's uncertainty index



Source: IPART analysis.

Appendix E

Detailed financial tables

E

E.1 Building blocks and notional revenue requirement

E.1.1 Total notional revenue requirement

Table E.1 Decision on total notional revenue requirement for the 2025 determination period ($million, $2024–25)

	2025–26	2026–27	2027–28	2028–29	2029-30	Total
Total NRR proposed by Hunter Water	465.1	490.5	508.1	520.5	529.8	2,514.0
IPART decision (building block components)						
Operating allowance	193.0	194.2	197.0	197.8	196.9	978.8
Return on assets	140.3	149.4	155.5	159.7	162.9	767.8
Regulatory depreciation	101.5	110.2	117.4	123.8	129.9	582.8
Working capital allowance	1.4	1.9	2.5	2.7	3.0	11.5
Tax allowance	15.3	16.8	17.9	19.0	20.0	88.9
Other costs	-3.9	0.0	0.0	0.0	0.0	-3.9
IPART decision - total NRR	447.4	472.4	490.4	503.0	512.6	2,425.8
Difference between the proposal and IPART decision	-17.7	-18.1	-17.7	-17.5	-17.2	-88.2
Difference between the proposal and IPART decision (%)	-3.8%	-3.7%	-3.5%	-3.4%	-3.2%	-3.5%

Note: Figures may not sum due to rounding. In this table, the regulatory depreciation is a mid-year figure (i.e. the RAB roll-forward depreciation figure is discounted by half a year of WACC).
Source: IPART analysis.

E.1.2 Return on assets

Table E.2 Decision on return on assets for the 2025 determination period ($million, $2024–25)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Hunter Water proposal	153.9	163.4	169.9	174.3	177.7	839.2
IPART decision	140.3	149.4	155.5	159.7	162.9	767.8
Difference	-13.6	-14.0	-14.4	-14.6	-14.8	-71.4
Difference (%)	-8.9%	-8.6%	-8.5%	-8.4%	-8.3%	-8.5%

Note: Figures may not sum due to rounding.
Source: IPART analysis.

Table E.3 Decision on regulatory asset base roll-forward for the 2020 determination period ($million, $nominal)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Opening RAB	**2,660.5**	2,778.9	3,004.4	3,277.4	3,591.6	3,862.7
Plus: Efficient capital expenditure	168.0	179.0	160.5	199.9	229.2	263.3
Less: Asset disposals	0.0	0.1	0.0	0.0	0.0	0.0
Less: Regulatory depreciation	41.3	62.4	75.6	88.3	98.9	94.7
Plus: Indexation	-8.2	109.0	188.2	202.6	140.8	79.9
Closing RAB	2,778.9	3,004.4	3,277.4	3,591.6	3,862.7	**4,111.2**
Hunter Water proposal (closing RAB)	2,779.2	3,004.7	3,277.8	3,592.0	3,863.2	4,147.2
Difference	-0.3	-0.3	-0.4	-0.4	-0.5	-36.0
Difference (%)	0.0%	0.0%	0.0%	0.0%	0.0%	-0.9%

Note: Figures may not sum due to rounding.
Source: IPART analysis.

Table E.4 Decision on regulatory asset base roll-forward for the 2025 determination period ($million, $2024-25)

	2025-26	2026-27	2027-28	2028-29	2029-30
Opening RAB	**4,111.2**	4,425.2	4,665.4	4,795.6	4,916.5
Plus: Efficient capital expenditure	417.2	352.2	249.6	246.7	199.8
Less: Asset disposals	0.0	0.0	0.0	0.0	0.0
Less: Regulatory depreciation	103.2	112.0	119.4	125.8	132.0
Closing RAB	4,425.2	4,665.4	4,795.6	4,916.5	**4,984.3**
Hunter Water proposal (closing RAB)	4,450.9	4,679.5	4,807.0	4,925.5	4,991.4
Difference	-25.7	-14.1	-11.4	-9.0	-7.1
Difference (%)	-0.6%	-0.3%	-0.2%	-0.2%	-0.1%

Note: Figures may not sum due to rounding.
Source: IPART analysis

E.1.3 Return of assets (regulatory depreciation allowance)

Table E.5 Decision on allowance for return of assets for the 2025 determination period ($million, $2024-25)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Hunter Water proposal	101.9	110.0	116.7	122.7	128.2	579.5
IPART decision	101.5	110.2	117.4	123.8	129.9	582.8
Difference	-0.4	0.2	0.7	1.1	1.7	3.3
Difference (%)	-0.4%	0.2%	0.6%	0.9%	1.3%	0.6%

Note: Figures may not sum due to rounding.
Source: IPART analysis

Table E.6 Decision on remaining asset lives for existing assets (years)

	Remaining RAB lives of depreciable assets existing on 1 July 2025
Corporate	8
Water	44
Wastewater	49
Stormwater	46

Table E.7 Decision on expected lives of new assets (years)

	2025-26	2026-27	2027-28	2028-29	2029-30
Corporate	12	12	12	12	12
Water	56	56	56	56	56
Wastewater	42	42	42	42	42
Stormwater	87	87	87	87	87

E.1.4 Working capital allowance

Table E.8 Decision for the return on working capital allowance for the 2025 determination period ($million, $2024-25)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Hunter Water proposal	1.3	1.8	2.5	2.6	2.9	11.1
IPART decision	1.4	1.9	2.5	2.7	3.0	11.5
Difference	0.1	0.1	0.0	0.1	0.1	0.4
Difference (%)	4.9%	4.4%	1.7%	3.3%	3.1%	3.3%

Note: Figures may not sum due to rounding.
Source: IPART analysis

E.1.5 Tax allowance

Table E.9 Decision on the tax allowance for the 2025 determination period ($million, $2024-25)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Hunter Water proposal	19.4	21.0	22.1	23.1	24.0	109.6
IPART decision	15.3	16.8	17.9	19.0	20.0	88.9
Difference	-4.1	-4.2	-4.2	-4.1	-4.0	-20.7
Difference (%)	-21.4%	-20.2%	-18.9%	-17.8%	-16.7%	-18.9%

Note: Figures may not sum due to rounding.
Source: IPART analysis

E.1.6 Revenue adjustment for DVAM

Table E.10 DVAM true-up for Hunter Water ($million, $2024-25)

	2019-20 to 2023-24
Forecast revenue over true-up period	928.8
Actual revenue over true up period	876.3
Variance (%) over the period	-5.7%
True up with 5% threshold	6.0

Source: IPART analysis
Note: True-up calculation includes the holding costs

E.1.7 Calculation of the deferral year revenue

In 2021 we agreed to defer the scheduled 2023-24 water price reviews for Hunter Water by one year. This meant that the 2023-24 prices set out in the 2020 Determination remained constant in nominal terms in 2024-25, and as a result, Hunter Water under-recovered its efficient costs over 2024-25.

Hunter Water proposed to not true-up the efficient costs it incurred in 2024-25, as it considers that a true-up would increase prices and negatively impact customer affordability. We have made a decision to accept Hunter Water's proposal.

Below we step through our calculation of what a deferral year true-up would be, had we made a decision to apply it to Hunter Water's notional revenue requirement.

How we calculated what a deferral year true-up would be

At the beginning of each new determination period, we typically add efficient historical capital expenditure, including from any price review deferral years to the Regulatory Asset Base. We calculate the efficient costs incurred by Hunter Water in 2024-25 by calculating the notional revenue requirement for one year, based on 2024-25 parameters. The true-up amount would be the difference between our calculation of the NRR for 2024-25, and the revenue the business expects to receive in 2024-25, based on actual prices and forecast volumes under the prevailing determination. This way, we can calculate the true-up amount as if we had set prices in our usual way for 2024-25.

Given that we have updated the WACC for 2024-25 there is no cost of debt true-up required for the deferral year. We have also not included the DVAM in the deferral year true-up. Normally, we do not include the final year of a determination period in our calculation, as complete actual data is not yet available. The DVAM true-up for 2024-25 will therefore be recovered in the 2030-35 price determination.

Applying this calculation method we arrive at a potential revenue adjustment true-up for the deferral year of $17.3 million.

E.2 Trade waste charges

Our decisions on trade waste charges over the 2025 determination period (as discussed in Chapter 8) are set out in the following tables:

Table E.11 High-strength charges for sewered customers ($2025-26)

Wastewater catchment	$2024-25 BOD charge ($/kg) 2024-2025	$2025-26 BOD charge ($/kg) 2025-26 to 2029-30	Change (%)	$2024-25 TSS charge ($/kg) 2024-2025	$2025-26 TSS charge ($/kg) 2025-26 to 2029-30	Change (%)
Belmont	1.50	1.33	-11%	0.41	0.33	-20%
Boulder Bay	1.55	1.29	-17%	0.43	0.42	-2%
Branxton	3.49	3.91	12%	2.50	2.95	18%
Burwood Beach	0.72	0.80	11%	0.24	0.18	-25%
Cessnock	1.89	1.73	-8%	0.31	0.10	-68%
Clarence Town	5.67	6.22	10%	4.73	5.18	10%
Dora Creek	2.25	2.32	3%	0.20	0.22	10%
Dungog	2.44	2.48 *(to apply from 2025-26 to 2026-27)* 7.42 *(to apply from 2027-28)*	204%	1.64	1.66 *(to apply from 2025-26 to 2026-27)* 4.99 *(to apply from 2027-28)*	204%
Edgeworth	1.22	1.21	-1%	0.42	0.27	-36%
Farley	1.69	1.08	-36%	0.42	0.70	67%
Karuah	8.36	8.48	1%	1.44	1.45	1%
Kearsley	2.30	0.62	-73%	0.98	0.25	-74%

Wastewater catchment	$2024-25 BOD charge ($/kg) 2024-2025	$2025-26 BOD charge ($/kg) 2025-26 to 2029-30	Change (%)	$2024-25 TSS charge ($/kg) 2024-2025	$2025-26 TSS charge ($/kg) 2025-26 to 2029-30	Change (%)
Kurri Kurri	3.59	3.02	-16%	0.83	0.78	-6%
Morpeth	1.75	1.72	-2%	0.51	0.52	2%
Paxton	4.67	4.21	-10%	3.27	3.41	4%
Raymond Terrace	2.54	2.89	14%	0.78	0.77	-1%
Shortland	4.02	2.52	-37%	0.77	0.45	-42%
Tanilba Bay	2.83	4.89	73%	0.78	0.56	-28%
Toronto	1.90	2.38	25%	0.30	0.35	17%
Incentive charge for sewered customers	3 times base high-strength BOD charge	3 times base high-strength BOD charge		3 times base high-strength TSS charge	3 times base high-strength TSS charge	

Table E.12 Administration charges for sewered customers ($2025-26)

	$2024-25 Current 2024-25	$2025-26 2025-26 to 2029-30	Change (%)
Minor Agreement			
Establishment	201.37	230.30	14%
Renewal	169.21	172.27	2%
Annual	140.10	163.36	17%
Moderate Agreement			
Establishment	520.50	439.49	-16%
Renewal	319.20	349.57	10%
Annual	805.16	998.74	24%
Agreement Variation	172.71	133.37	-23%
Major Agreement			
Establishment	818.26	945.53	16%
Renewal	525.26	609.03	16%
Annual	2,754.94	3,169.00	15%
Inspection	269.18	286.46	6%
Variation	172.71	151.23	-12%
Moderate and Major risk customers			
Additional discharge monitoring and management fee	N/A	3,072.18	N/A

Table E.13 Administration charges for tankered customers ($2025-26)

	$2024-25 Current 2024-25	$2025-26 2025-26 to 2029-30	Change (%)
Tankered waste agreement			
Establishment	659.39	579.27	-12%
Renewal	274.48	238.52	-13%
Annual	871.86	774.72	-11%
Variations	174.34	136.29	-22%
After-hours access fee (up to 4 hours)	524.07	547.38	4%
After-hours access (hourly rate beyond 4 hours)	98.86	103.26	4%

Table E.14 Volumetric charges for tankered customers ($2025-26)

	$2024-25 Current 2024-25	$2025-26 2025-26 to 2029-30	Change (%)
Tankered waste ($ per kL)			
Administrative volumetric price	-	0.96	
Load based volumetric price	6.91	6.16	-10.9%
Total volumetric price	6.91	7.12	3.0%
Tankered customer incentive charge			
Hunter Water proposed		21.36	
IPART decision		18.46	

E.3 Miscellaneous and ancillary charges

Our decisions on miscellaneous and ancillary charges over the 2025 determination period (as discussed in Chapter 8) are set out in the following table.

Table E.15 Miscellaneous and ancillary charges ($2025-26)

Service no.		Function	$2024-25 2024-25	$2025-26 2025-26 to 2029-30
1.		Conveyancing certificate		
	a)	Over the counter	17.15	Removed
	b)	Electronic	12.20	11.98
2.		Property sewerage diagram	15.55	Removed
3.		Service location diagram		
	a)	Service location plan (both water and sewer)	12.50	14.08
	b)	Sewer location diagram (Section 47 and sewer location diagram sewer conveyancing)	10.10	11.32
4.		Building over or adjacent to sewer advice	72.80	76.90
5.		Water reconnection - after restriction		
	a)	Restriction	64.10	73.27
	b)	Reconnection during business hours (8am to 3pm)	71.40	82.33
	c)	Reconnection outside business hours (3pm to 8am)	114.00	130.05
6.		Workshop flow rate test of meter		
	a)	20-25 mm	295.00	305.15
	b)	32 mm	345.00	337.92
	c)	40 mm	346.00	350.21
	d)	50 mm light (being a meter weighing less than 10kg)	430.00	350.21
	e)	50 mm heavy (being a meter weighing 10kh or more)	466.00	454.66
	f)	65 mm	471.00	459.78
	g)	80 mm	702.00	668.67
	h)	100 mm	1,053.00	974.85
	i)	150 mm	1,294.00	1,190.91
7.		Application for water and recycled water disconnection		
	a)	Application for water disconnection (all sizes)	31.20	36.04
	b)	Application for recycled water disconnection	46.80	53.76
8.		Application for water service connection	39.00	44.90
9.		Application to assess a water main adjustment	339.00	Removed
10.		Metered standpipe hire - security bond		
		20 mm metered standpipe	333.00	321.54
		32 mm high flow metered standpipe	983.00	887.81
		50 mm metered standpipe	983.00	887.81
		Metered standpipe hire - annual fees		
11.		20 mm metered standpipe	126.00	88.06
		32 mm high flow metered standpipe	256.00	201.73
		50 mm metered standpipe	256.00	201.73

Service no.		Function	$2024-25 2024-25	$2025-26 2025-26 to 2029-30
12.		Statement of available pressure	111.00	121.86
13.		Application to connect or disconnect sewer services or for a special internal inspection permit	50.00	48.44
14.		Application to connect or disconnect water & sewer services (combined application)	62.35	53.76
15.		Request for separate metering of units (per plan)	54.55	62.11
16.		Building plan stamping	23.35	27.08
17.		Determining requirements for building over/adjacent to sewer or easement	170.00	176.13
18.		Hiring of a metered standpipe		
	a)	application to hire a metered standpipe	64.15	66.30
	b)	Breach of standpipe hire conditions:		
		Breach 1	9.20	10.65
		Breach 2	9.20	10.65
		Breach 3 - step 1	9.20	10.65
		Breach 3 - step 2 (customer fails to return standpipe)	33.75	39.01
19.		Metered affixtures/handling fee		
		20 mm (delivery and installation by Hunter Water)	54.35	50.33
		25 mm (delivery and installation by Hunter Water)	53.90	50.02
		32 mm (delivery and installation by Hunter Water)	67.30	61.95
		40 mm (delivery and installation by Hunter Water)	67.30	61.95
		50 mm (delivery and installation by Hunter Water)	126.00	113.66
		50 mm (delivered by Hunter Water)	252.00	226.30
		50 mm (collected by customer)	18.50	18.38
20.		Inspection of non-compliant meters	61.35	47.10
21.		Connect to or building over/adjacent to stormwater channel for a single residence	106.00	110.59
22.		Stormwater channel connection	282.00	291.84
23.		Hydraulic design assessment		
		Less than 80 mm	222.00	222.21
		80 mm or larger	330.00	338.94
24.		Complex works design review		
		Water-point asset (water pump stations, pressure reduction valves)	5,106.00	5,649.41
		Sewer-point asset (water pump stations, pressure reduction valves)	5,830.00	6,499.33
		Linear water and sewer asset		
		Tier 1 (0-99 mm) Linear water and sewer asset (including pressure sewer)	869.00	952.32
		Tier 2 (99-1000 mm) Linear water and sewer asset (including pressure sewer)	3,658.00	3,998.72
		Tier 3 (Greater than 1000 mm) Linear water and sewer asset (including pressure sewer)	5,324.00	5,799.94
25.		Application to asset sewer main adjustment	378.00	Removed
26.		Revision of development assessment	353.00	394.24

Service no.	Function	$2024-25 2024-25	$2025-26 2025-26 to 2029-30
27.	Bond application	2,803.00	2,751.49
28.	Development assessment application	376.00	385.02
29.	Application for water and sewer main extensions and/or adjustments	378.00	398.34
30.	Application to connect to/disconnect from water supply system	205.00	201.73
31.	Shutdown and charge-up for water connection/disconnection	479.00	729.09
32.	Application for additional sewer connection point	378.00	Removed
33.	Complex works inspection fee		
	Water-point asset (water pump stations, pressure reduction valves)	7,468.00	9,353.22
	Sewer-point asset (water pump stations, pressure reduction valves)	6,794.00	8,521.73
	Linear water and sewer asset (including pressure sewer)		
	Tier 1 (0-99 m)	806.00	1,060.86
	Tier 2 (99-1000 m)	1,132.00	1,432.58
	Tier 3 (Greater than 1000 m)	1,544.00	1,945.60
34.	Technical services hourly rate	141.00	167.94
35.	Remote from services application fee	102.00	79.67
36.	Preliminary servicing advice	575.00	623.62
37.	Servicing strategy review	1,731.00	1,954.82
38.	Environmental assessment report review	1,062.00	1,137.66
39.	Water cart tanker inspection	52.80	58.62
40.	Damaged meter replacement		
	Meter Exchange (Customer Request) 20 mm	101.00	108.54
	Meter Exchange (Customer Request) 25 mm	171.00	172.03
	Meter Exchange (Customer Request) 32 mm	234.00	271.36
	Meter Exchange (Customer Request) 40 mm	321.00	344.06
	Meter Exchange (Customer Request) Light 50 mm	333.00	1,192.96
	Meter Exchange (Customer Request) Heavy 50 mm	370.00	1,192.96
	Meter Exchange (Customer Request) 65 mm	683.00	Discontinued
	Meter Exchange (Customer Request) 80 mm	595.00	1,305.60
	Meter Exchange (Customer Request) 100 mm	989.00	1,726.46
	Meter Exchange (Customer Request) 150 mm	2,893.00	2,841.60
	Meter Exchange (Customer Request) 250 mm	5,746.00	5,292.03
	Meter Exchange (Customer Request) 300 mm	7,118.00	6,555.65
41.	Affix a separate meter to a unit	38.15	49.61
42.	Recycled water meter affix fee	69.60	64.10
43.	Application for recycled water service connection - domestic		
	Pre-laid Service	24.65	27.96
	Redevelopment - recycled water main size drillings		
(i)	80 mm	229.00	248.83
(ii)	100 mm	221.00	243.71
(iii	150 mm	229.00	267.26

Service no.	Function	$2024-25 2024-25	$2025-26 2025-26 to 2029-30
(iv)	200 mm	321.00	402.43
(v)	250 mm	368.00	340.99
(vi)	300 mm	447.00	347.14
(vii)	375 mm	754.00	444.42
44.	Accredited supplier assessment fee	New charge	967.68
45.	Billing record search statement		
a)	Over the phone - up to 2017	New charge	31.69
b)	Electronic - beyond 2017 - via case logged (triage team)	New charge	49.31
c)	For multiple properties (per hour)	New charge	105.47

E.4 Bill impacts

E.4.1 Bills impacts and affordability assessments

Table E.16 Bill impacts for Hunter Water's proposed prices and our prices for water and wastewater services ($2025-26)

		$2024-25	$2025-26				
	Water usage (kL/ year)	2024-25 Current	2025-26	2026-27	2027-28	2028-29	2029-30
Hunter Water proposed							
Small household - apartment	87	1,011	1,115	1,169	1,225	1,281	1,336
Annual change			*10.3%*	*4.9%*	*4.8%*	*4.6%*	*4.3%*
Typical household - house	146	1,241	1,346	1,417	1,490	1,564	1,636
Annual change			*8.5%*	*5.3%*	*5.2%*	*4.9%*	*4.6%*
Large household - house	290	1,657	1,817	1,931	2,051	2,169	2,286
Annual change			*9.6%*	*6.3%*	*6.2%*	*5.8%*	*5.4%*
Pensioner – house (receives a pensioner rebate)	100	727	781	814	848	883	917
Annual change			*7.3%*	*4.3%*	*4.2%*	*4.1%*	*3.8%*
Pensioner – house (without pension rebate)	100	1,108	1,195	1,252	1,312	1,371	1,429
Annual change			*7.9%*	*4.8%*	*4.7%*	*4.5%*	*4.2%*
IPART decision							
Small household – apartment	87	1,011	1,096	1,131	1,167	1,204	1,239
Annual change			*8.4%*	*3.2%*	*3.2%*	*3.1%*	*3.0%*
Typical household – house	146	1,241	1,326	1,378	1,432	1,487	1,540
Annual change			*6.9%*	*3.9%*	*4.0%*	*3.8%*	*3.6%*
Large household - house	290	1,657	1,797	1,892	1,993	2,092	2,189
Annual change			*8.5%*	*5.3%*	*5.3%*	*5.0%*	*4.7%*
Pensioner – house (receives a pensioner rebate)	100	727	766	786	806	827	846
Annual change			*5.4%*	*2.5%*	*2.6%*	*2.6%*	*2.4%*
Pensioner – house (without pension rebate)	100	1,108	1,176	1,214	1,254	1,294	1,332
Annual change			*6.2%*	*3.2%*	*3.3%*	*3.2%*	*3.0%*

Note: The change between 2024-25 and 2025-26 includes inflation. Prices between 2026-27 and 2029-30 will be subject to yearly inflation.

Source: IPART analysis.

Table E.17 Bill impacts of Hunter Water's proposed prices and prices on water usage charges for renters ($2025-26)

		$2024-25	$2025-26				
	Water usage (kL/year)	2024-25 Current	2025-26	2026-27	2027-28	2028-29	2029-30
Hunter Water proposed							
Renter - small household or apartment with a separate meter	87	251	284	311	338	365	392
Annual change			*13.1%*	*9.2%*	*9.0%*	*8.0%*	*7.4%*
Renter - typical household with a separate meter	146	422	477	521	568	613	658
Annual change			*13.1%*	*9.2%*	*9.0%*	*8.0%*	*7.4%*
Renter - large household with a separate meter	290	838	948	1,035	1,128	1,218	1,308
Annual change			*13.1%*	*9.2%*	*9.0%*	*8.0%*	*7.4%*
Renter - typical pensioner household with a separate meter (no pensioner rebate)	100	289	327	357	389	420	451
Annual change			*13.1%*	*9.2%*	*9.0%*	*8.0%*	*7.4%*
IPART decision							
Renter - small household or apartment with a separate meter	87	251	284	311	338	365	392
Annual change			*13.1%*	*9.2%*	*9.0%*	*8.0%*	*7.4%*
Renter - typical household with a separate meter	146	422	477	521	568	613	658
Annual change			*13.1%*	*9.2%*	*9.0%*	*8.0%*	*7.4%*
Renter - large household with a separate meter	290	838	948	1,035	1,128	1,218	1,308
Annual change			*13.1%*	*9.2%*	*9.0%*	*8.0%*	*7.4%*
Renter - typical pensioner household with a separate meter (no pensioner rebate)	100	289	327	357	389	420	451
Annual change			*13.1%*	*9.2%*	*9.0%*	*8.0%*	*7.4%*

Note: The change between 2024-25 and 2025-26 includes inflation. Prices between 2026-27 and 2029-30 will be subject to yearly inflation.

Source: IPART analysis.

Table E.18 Bill impacts of Hunter Water's proposed prices and prices for fixed service charges paid by owners of rental properties ($2025-26)

	$2024-25	$2025-26				
	2024-25 Current	2025-26	2026-27	2027-28	2028-29	2029-30
Hunter Water proposed						
Property owners that leases a separately metered property						
House	819	868	895	923	951	978
Annual change		*6.1%*	*3.1%*	*3.0%*	*3.1%*	*2.8%*
Apartment	760	831	859	887	916	944

	$2024-25	$2025-26				
	2024-25 Current	2025-26	2026-27	2027-28	2028-29	2029-30
Annual change		*9.4%*	*3.4%*	*3.3%*	*3.3%*	*3.1%*
IPART decision						
Property owners that leases a separately metered property						
House	819	849	857	865	874	881
Annual change		*3.7%*	*0.9%*	*0.9%*	*1.0%*	*0.9%*
Apartment	760	811	820	829	838	847
Annual change		*6.8%*	*1.1%*	*1.1%*	*1.1%*	*1.0%*

Note: The change between 2024-25 and 2025-26 includes inflation. Prices between 2026-27 and 2029-30 will be subject to yearly inflation.

Source: IPART analysis.

E.4.2 Affordability ratios

The following key can be used as a visual guide for the bill impacts set out in the tables below.

Low Water Stress | 3% Water Stress Threshold | High Water Stress

Table E.19 Affordability ratios for owner-occupier households of different socio-economic groups

Customer type	Water usage kL/year	Yearly income	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Median apartment	87	$108,275	1.0%	1.0%	1.0%	1.1%	1.1%	1.1%
Median typical household	146	$108,275	1.2%	1.2%	1.3%	1.3%	1.4%	1.4%
Median large household	290	$108,275	1.6%	1.7%	1.7%	1.8%	1.9%	2.0%
Income Quartiles								
Low income	134	$52,450	2.4%	2.5%	2.5%	2.6%	2.7%	2.8%
Lower-middle income	158	$80,244	1.6%	1.7%	1.8%	1.8%	1.9%	2.0%
Higher-middle income	199	$146,784	1.0%	1.0%	1.1%	1.1%	1.2%	1.2%
High income	215	$185,588	0.8%	0.8%	0.9%	0.9%	1.0%	1.0%
Low income – typical household	146	$52,450	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%
Low Income - large household	290	$52,450	3.3%	3.4%	3.6%	3.8%	4.0%	4.2%
High income - large household	290	$185,588	0.9%	1.0%	1.0%	1.1%	1.1%	1.2%
Low income card eligible household, couple with dependent	146	$73,322	1.7%	1.8%	1.9%	2.0%	2.0%	2.1%

Note: Yearly incomes for median customers[179], income quartiles[180] and Low Income Cards[181] based on weekly household incomes and adjusted to $2025-26.

Source: IPART analysis.

Table E.20 Affordability ratios for pensioner rebate eligible households

Household type	Rebate	Water usage (kL/year)	Yearly income	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Age pensioner, disability pension or carer payment - single	Without rebate	100	$30,582	3.7%	3.8%	4.0%	4.1%	4.2%	4.4%
	With rebate	100	$30,582	2.4%	2.5%	2.6%	2.6%	2.7%	2.8%
Age pensioner, disability pension or carer payment - couple	Without rebate	100	$46,105	2.5%	2.6%	2.6%	2.7%	2.8%	2.9%
	With rebate	100	$46,105	1.6%	1.7%	1.7%	1.7%	1.8%	1.8%
JobSeeker – single with dependent and looking for work	Without rebate	87	$22,518	4.6%	4.9%	5.0%	5.2%	5.3%	5.5%
	With rebate	87	$22,518	2.9%	3.0%	3.1%	3.2%	3.3%	3.3%
Parenting payment – single	Without rebate	87	$28,014	3.7%	3.9%	4.0%	4.2%	4.3%	4.4%
	With rebate	87	$28,014	2.3%	2.4%	2.5%	2.6%	2.6%	2.7%

Note: Government income support payments for aged pension[182], disability support payment[183], carer payment[184], JobSeeker[185] and parenting payment[186] have been adjusted in line with inflation from $2024-25 to $2025-26[187].

Source: IPART analysis.

The table below presents the impact on affordability ratios for low-income households that receive full water and wastewater bills (owner-occupiers) that are not eligible for the Pensioner Concession Card and therefore pensioner rebates, but are eligible for the Health Care Card. It shows the impact on affordability ratios *if* the current pensioner rebate were expanded to include these households eligible for the Health Care Card.

Table E.21 Affordability ratios for other owner-occupier households that may experience vulnerability and are not eligible for rebates

Household	Rebate	Water usage (kL/year)	Yearly income	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Parenting payment – couple	Without	146	$38,488	3.3%	3.4%	3.6%	3.7%	3.9%	4.0%
	If rebate	146	$38,488	2.3%	2.4%	2.5%	2.6%	2.6%	2.7%
JobSeeker - single, no children	Without	87	$21,025	4.9%	5.2%	5.4%	5.6%	5.7%	5.9%
	If rebate	87	$21,025	3.1%	3.3%	3.3%	3.4%	3.5%	3.6%
JobSeeker – couple, no children	Without	87	$38,488	2.7%	2.8%	2.9%	3.0%	3.1%	3.2%
	If rebate	87	$38,488	1.7%	1.8%	1.8%	1.9%	1.9%	2.0%
Family Tax Benefit Part A	Without	146	$66,754	1.9%	2.0%	2.1%	2.1%	2.2%	2.3%
	If rebate	146	$66,754	1.3%	1.4%	1.4%	1.5%	1.5%	1.6%

Note: Government income support payments for JobSeeker[188], parenting payment[189] and FTB Part A[190] have been adjusted in line with inflation from $2024-25 to $2025-26[191].
Source: IPART analysis.

Table E.22 Affordability ratios for renter households of different socio-economic groups

Household	Water usage (kL/year)	Yearly Income	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Small household (apartment)	87	$108,275	0.2%	0.3%	0.3%	0.3%	0.3%	0.4%
Typical household	146	$108,275	0.4%	0.4%	0.5%	0.5%	0.6%	0.6%
Large household	290	$108,275	0.8%	0.9%	1.0%	1.0%	1.1%	1.2%
Pensioner - single	100	$36,226	0.8%	0.9%	1.0%	1.1%	1.2%	1.2%
Pensioner – couple	100	$51,424	0.6%	0.6%	0.7%	0.8%	0.8%	0.9%
Parenting payment - single	87	$33,651	0.8%	0.8%	0.9%	1.0%	1.1%	1.2%
Jobseeker - single, with dependent	87	$28,162	0.9%	1.0%	1.1%	1.2%	1.3%	1.4%
Low Income quartile	134	$52,450	0.8%	0.9%	1.0%	1.1%	1.2%	1.3%
Lower-middle income quartile	158	$80,244	0.6%	0.7%	0.7%	0.8%	0.9%	1.0%
Higher-middle income quartile	199	$146,784	0.4%	0.5%	0.5%	0.6%	0.6%	0.6%
High income quartile	215	$185,588	0.4%	0.4%	0.4%	0.5%	0.5%	0.6%
Low income – large household	290	$52,450	1.7%	1.8%	2.0%	2.2%	2.3%	2.5%
High income – large household	290	$185,588	0.5%	0.5%	0.6%	0.6%	0.7%	0.7%
Jobseeker - single, no children	87	$26,669	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%
Jobseeker - couple	134	$43,808	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%
Jobseeker - principle carer	134	$32,780	1.3%	1.4%	1.6%	1.7%	1.9%	2.0%
Parenting payment - couple	146	$43,808	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%
Youth allowance	87	$23,486	1.1%	1.2%	1.3%	1.4%	1.6%	1.7%

Note: Government income support payment amounts in this table, including Youth Allowance[192], have been adjusted to $2025-26 in line with CPI inflation, and include rental assistance payments[193] available to renter households.

Source: IPART analysis.

Table E.23 Bill impacts for typical non-residential customers ($2025-26)

Customer	Water usage (kL/year)	$2024-25	$2025-26				
		2024-25 Current	2025-26	2026-27	2027-28	2028-29	2029-30
Service station	70	1,304	1,400	1,444	1,489	1,534	1,578
Small shop	150	1,351	1,437	1,490	1,547	1,603	1,658
Small/medium shop	165	1,962	2,085	2,161	2,242	2,321	2,400
Large licensed club	8,450	49,675	54,172	56,806	59,609	62,394	65,112
Medium licensed hotel	1,200	6,808	7,412	7,822	8,256	8,688	9,110
Regional shopping centre – with high strength trade waste	73,100	293,576	321,551	343,629	367,168	390,414	413,222
Large office – Newcastle	3,600	17,815	19,381	20,466	21,623	22,774	23,895
Regional office – Maitland	230	3,732	3,921	4,026	4,135	4,243	4,350
Small industrial business	50	1,694	1,798	1,843	1,888	1,933	1,978
Medium industrial business	73,300	264,634	293,519	314,881	337,710	360,245	382,340
Large industrial business – no sewer	190,000	550,878	623,279	680,558	741,635	800,813	859,991
Large industrial business – with sewer	243,300	818,617	912,581	983,890	1,060,065	1,134,902	1,208,644
Plant nursery	5,500	16,948	19,088	20,749	22,519	24,240	25,956
Fast food outlet	1,450	8,407	9,312	9,739	10,196	10,650	11,092
Shopping centre – with high-strength trade waste	7,800	44,912	45,004	47,303	49,757	52,200	54,576
Large industrial business – with high strength trade waste	42,000	152,728	172,772	185,131	198,331	211,278	224,058

Note: The change between 2024-25 and 2025-26 includes inflation. Prices between 2026-27 and 2029-30 will be subject to yearly inflation. Bill impacts for non-residential archetype customers who are trade waste customers, do not include any potential incentive charges on excessive BOD and TSS levels. Agreement renewals are also not included.

Source: IPART analysis.

E.4.3 Financeability assessment

We calculated Hunter Water's financeability indicators based on the NRR and prices under our decisions. The following tables step through our benchmark and actual tests of financial sustainability for Hunter Water under our pricing decisions.

Table E.24 Benchmark financeability test results based on our decisions

	Target ratio	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Real interest cover	(higher is better)						
Benchmark test	**>2.2x**	3.4	3.4	3.5	3.7	3.9	4.2
Does it meet the target?		yes	yes	yes	yes	yes	yes
Real FFO over debt	(higher is better)						
Benchmark test	**>7.0%**	5.6%	6.0%	6.2%	6.6%	7.2%	7.9%
Does it meet the target?		no	no	no	no	yes	yes
Real gearing	(lower is better)						
Benchmark test	**<70%**	60%	60%	60%	60%	60%	60%
Does it meet the target?		yes	yes	yes	yes	yes	yes

Table E.25 Actual financeability test results based on our decisions

	Target ratio	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Real interest cover	(higher is better)						
Actual test	**>1.8**	2.7	2.5	2.4	2.3	2.4	2.4
Does it meet the target?		yes	yes	yes	yes	yes	yes
Real FFO over debt	(higher is better)						
Actual test	**>6.0%**	5.6%	5.5%	5.4%	5.6%	5.9%	6.5%
Does it meet the target?		no	no	no	no	no	yes
Real gearing	(lower is better)						
Actual test	**<70%**	52%	54%	55%	55%	55%	54%
Does it meet the target?		yes	yes	yes	yes	yes	yes

Hunter Water's benchmark ratios for the FFO over debt ratio are slightly below the target for the first 4 years of the period. However, we did not consider that this reflects a financeability concern for the 2025 determination period because:

- The trend in the benchmark FFO over debt ratio improves over the determination period and reaches the target ratio in the final year. Previously, we have been clear that if trends in the financial ratio show an improvement, then we would assess that the business may not have a financeability concern
- The interest cover ratios indicate that Hunter Water will have cash flows that cover its annual interest payments.

Appendix F

Glossary

Term	Definition
3Cs	The 3 pillars of our framework: Customer, Cost, and Credibility. The 12 principles we use to grade businesses' proposals are grouped under these pillars.
Assessment tool	Guidance material to assist businesses preparing pricing proposals. It sets out, for each of the 12 principles in the framework, the key considerations IPART is going to make when assigning a grade to a proposal.
AFOC	Assets free of charge refers to assets transferred by developers to utilities for 'no consideration', the value of which is regarded as assessable income, resulting in a tax benefit for developers and a tax liability for utilities, which is then added to the tax asset base.
BTS approach	Base-Trend-Step approach: the approach IPART will use when setting operating expenditure allowances. 'Base' refers to the efficient recurring expenditure required each year, calculated from recent past data. 'Trend' refers to predictable changes in expenditure over time due to known factors such as demand growth or inflation. 'Step' refers to changes in expenditure caused by new requirements or new processes.
Building block model	IPART's standard method for calculating a business's required revenue. Costs are broken down into 5 components to establish the amount of revenue needed to recover them.
Cap-and-collar	Cap on the maximum amount of benefits to be paid out through financial incentive schemes.
CESS	Capital Efficiency Sharing Scheme: an incentive scheme to provide water businesses with a fixed share of any efficiency gains (or losses) associated with capital expenditure during a determination period.
Carve-out	Mechanism to allow businesses to exclude some uncontrollable costs from the calculation of capital expenditure incentive schemes.
Cost pass-through	Tool to allow businesses to pass some costs directly to customers within the determination period, under limited circumstances.
CPI	CPI refers to the All groups consumer price index weighted average of 8 capital cities. This is published by the Australian Bureau of Statistics; or, if the Australian Bureau of Statistics does not, has not yet, or ceases to publish the index, then CPI will mean an index determined by IPART
Customer	In the context of this report, 'customer' refers to direct bill payers as well as end users who might not be in a direct paying relationship with a water business (for example, an occupant or tenant of a serviced property).
Determination period	The period of time over which a determination of maximum prices applies.
Discount factor	The factor used to modify an annual amount to convert it to net present value terms.
DPE	Department of Planning and Environment in New South Wales.
DVAM	Demand volatility adjustment mechanism is a way to manage the revenue risk resulting from actual water demand over the determination period being materially higher or lower than the forecasts used to set prices.
Early engagement	Opportunity for businesses to engage with IPART 1 to 2 years before submitting their proposals.
EBSS	Efficiency Benefit Sharing Scheme: an incentive scheme to provide water businesses with a fixed share of any efficiency gains (or losses) associated with opex during a determination period.
Efficiency factor	Factor applied to a business's forecast expenditure, when appropriate, to adjust it for ongoing productivity improvements.
EPA	Environment Protection Authority, the primary environmental regulator for New South Wales.
ESC	Essential Services Commission, the independent regulator of essential services in Victoria.
Expenditure review	IPART's method for reviewing a business's expenditure to ensure customers are only paying efficient costs.

Financial incentives	Mechanisms to adjust a business's revenue requirement based on its performance, for examples by rewarding the quality of a proposal (ex-ante incentives) or realised improvements in efficiency (ex-post incentives).
Incentive payments	The amount calculated through the application of an incentive scheme that is used to modify the revenue requirement in a subsequent determination period.
IPART Act	The *Independent Pricing and Regulatory Tribunal Act 1992,* which establishes IPART's regulatory role and functions in New South Wales.
kL	Kilolitre (one thousand litres)
LIS	Line in the sand. The LIS value is equal to the present value of future free cashflow and is used to establish the value of a business's initial Regulatory Asset Base.
LRMC	Long Run Marginal Cost
ML	Megalitre (one million litres)
NPV	Net Present Value: the discounted value of a stream of benefits (or costs) taking into account the time value of money.
NRR	Notional Revenue Requirement, the revenue needed by a business to recover the cost of providing their services.
Operating licence	A regulatory instrument that authorises a water business to undertake its functions. Issued under the requirements of an Act by a Minister or the Governor, it contains terms and conditions governing a water business' operations. Not all water businesses are subject to a licence.
ODI	Outcome Delivery Incentive: An incentive scheme to provide financial benefits or penalties for achieving or not achieving customer agreed outcomes respectively.
Price controls	Methodologies used by water businesses and the regulator to set prices charged to customers. Main examples are price caps, and revenue caps.
RAP	Regulators Advisory Panel
RAB	Regulatory Asset Base: calculated as the economic value of all assets the business owns. The RAB is used as basis to calculate the revenue we provide to businesses in our determinations.
Re-opener	Option to reopen a determination and replace it partially or entirely. This is a last resort solution in case unforeseen cost changes materially impact a business's capacity to carry out its services.
Revenue requirement	Amount of revenue a business should recover from customers to cover its costs, as calculated by IPART during a price determination.
Revenue risk	The risk of businesses not collecting enough revenue from customers because of unforeseen increases in expenditure that aren't reflected in the revenue allowance.
Sharing ratio	The fixed ratio of sharing of gains (or losses) between customers and a water business.
Stakeholder submission	Submission prepared by stakeholders in the sector (such as water businesses, advocacy groups, and other regulators) in response to our Issues Paper or Draft Report.
True-up	Mechanism to allow businesses to pass some unexpected costs to consumers in the following determination period. This is reserved for limited circumstances.
Underspend	Actual expenditure savings in any year of a determination period compared to forecast expenditure. A negative underspend is an overspend.
WACC	Weighted Average Cost of Capital: the post-tax real cost of capital as determined by IPART as part of a price review.
WWTP	Wastewater Treatment Plant: a system of infrastructure used for the treatment of wastewater from household and/or industrial sources, before discharge into the environment.

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